

A photograph of two skydivers in a mountainous landscape. The skydivers are in a spread-eagle position, floating in the air. The background shows a vast, green valley with a winding river or road, and a rocky cliff edge in the foreground. The sky is clear and blue.

RISKING EVERYTHING

INSIGHT INTO HOW
NEW ZEALANDERS
MANAGE RISK

Financial **Services** Council
Growing and protecting the wealth of New Zealanders

Powered by



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EXECUTIVE SUMMARY

The Financial Services Council commissioned this independent research to understand New Zealander's attitudes to financial risk and how they protect their wealth should the worst happen.

The research has highlighted that New Zealanders are aware of a wide range of financial risks and more actively mitigate risks to their property (e.g. car, home).

The majority, however, hadn't considered how their day-to-day lives would be affected if they were to lose their income, even for a short period of time, despite identifying illness, loss of job and even death as a main type of risk to themselves or their family.

This means that many New Zealanders don't have enough savings or protection in place to cover their day-to-day expenses should they experience a short-term loss of income or indeed a longer-term major illness that might prevent them from earning in the future.

Managing personal risk should be an important consideration for all New Zealanders, and 'Risking Everything' is the first of a series of research into how Kiwi's are thinking about and managing their financial risks.

Importantly, the life insurance industry will use this research to continue to improve and deliver the best possible outcomes to support New Zealander's in growing and protecting their wealth.



Rob Flanagan
Chairman
Financial Services Council



Richard Klipin
Chief Executive Officer
Financial Services Council



ATTITUDES TO RISK: KEY FINDINGS

01

NEW ZEALANDERS ARE AWARE OF RISKS THAT MIGHT IMPACT THEM

Those surveyed identified global risks, natural disasters, loss of income/increase of expenses and illness or death when they were asked to consider types of risk. However, when thinking about these risks, 1 in 3 of those who identified them don't tend to think about how these risks might affect them and 43% of respondents often forget about them if they do.

02

THE RISK OF LOSING INCOME IS NOT CONSIDERED BY THE MAJORITY OF NEW ZEALANDERS

The majority of those surveyed said that they had undertaken an activity in the past two-years to assess financial risk. Of those that had undertaken an activity to assess financial risk, the most common response was that the assessment had been taken when considering their property - car insurance, the cost of replacing home contents and the replacement cost of their home. Only 20% said that they had considered a risk of lost income due to illness or serious injury.

03

NEW ZEALANDERS DON'T HAVE SAVINGS OR INSURANCE IN PLACE TO COVER SHORT-TERM LOSS OF INCOME

Two-thirds of those surveyed thought that there was a moderate to high risk of major financial problems should a significant event happen such as serious injury or being unable to work. We found that many respondents said that they did not have enough savings in place to manage their financial commitments should they experience a short-term loss of income, and only half of those respondents saw the need for adequate insurance cover to mitigate those risks.

04

NEW ZEALANDERS ARE NOT ACTIVELY MANAGING FINANCIAL RISK

Considering the number of respondents that reported they had thought about risk and undertaken an activity to assess a risk, the research indicates that many New Zealanders do not appear to be actively mitigating the risks of a potential significant life event which could have a major impact on their day-to-day lives.

05

GOVERNMENT SUPPORT, ACC AND THE PUBLIC HEALTH SYSTEM

Around one in three responded that they did not need to worry about paying for medical treatment because of ACC or public health system coverage in New Zealand. However slightly more, 37%, disagreed and responded that they do worry about costs, rising to 45% who disagreed when considering personal risks to them or their household.

01 MANAGING, ASSESSING AND MITIGATING RISK

There are many risks we face in life at a personal level, such as accidents and illness, which can have a negative effect on our normal day-to-day lives. There are also risks which have a global impact, such as climate change, and risks which derive from the performance of a country's economy.

Taking risk is part of living, in the case of individuals, and a consequence of doing business, in the case of businesses. No one can be 100% sure of the best course of action when a risk presents itself, but then that's the very nature of risk and there are usually ways to mitigate that risk.

It is common for risks to be assessed based on factors such as knowledge and likelihood of a particular event happening. We rely on experiences and information from friends, family and experts to help us understand risk and make risk based decisions. For example, we may ask a family member for his/her view on the best way to buy a car or we may consult a doctor about a particular health issue.

On occasion, risks are mitigated through Government schemes, like ACC in New Zealand, that cover accidental injury. We may also choose to mitigate certain risks through paid insurance policies, which protect us and cover financial loss should the unthinkable happen. We may choose to take no action as we assess, rightly or wrongly, that the risk is not sufficient to warrant action.

The outcome of this research suggests that attitudes to risk are individual, and we balance them according to our appetite to take risks and our need to protect against negative outcomes.

TYPES OF RISK

The New Zealanders surveyed identified a number of main types of risks to their personal finances:



Illness / death



Loss of job/income/redundancy



Cost of living increases



Other negative economic trends



Vehicles/household appliances needing repairs



An earthquake, fire or flood



Risk to their investments



Global events such as a financial crisis/war



Support family members

*These responses were unprompted



02 THINKING ABOUT FINANCIAL RISK

Our research indicates that despite recognising that financial risks exist and that they could cause significant disruption to day-to-day living, over 25% of New Zealanders tend not to think about how they could be impacted financially.

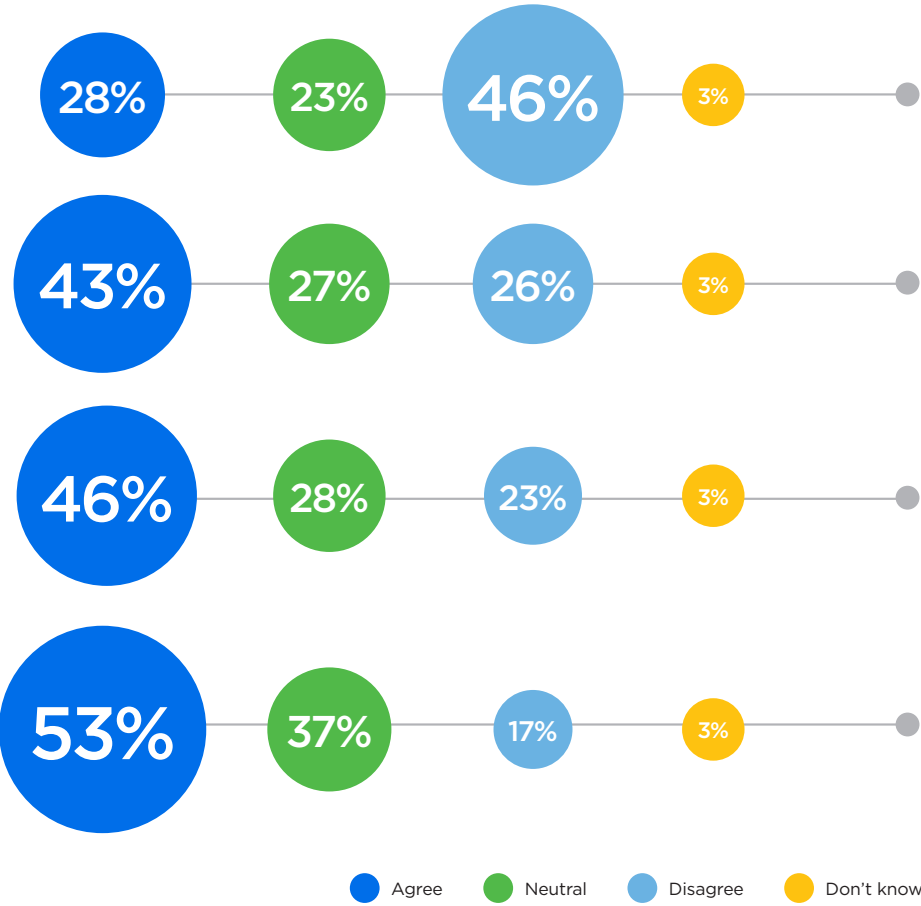
Over 40% of respondents occasionally think about and consider this type of risk, but then forget about them.

I tend not to think about the things that could impact my financial situation

I occasionally think about these things but then forget about them

I regularly think about these financial impacts and how well I would cope if the worst happened

I dislike having to think about these financial impacts



No. of respondents = 2,060

02 THINKING ABOUT FINANCIAL RISK

Over half of New Zealanders surveyed dislike thinking about these risks. This indicates that because of the negativity that these risks might engender, many New Zealanders choose not to tackle them head-on.



Respondents aged 25-34 and 55-64 are more likely to regularly think about how well they would cope financially if the worst happened.



Respondents aged 45-54 and those with a large family (three or more children at home) were less likely to think about financial risk.

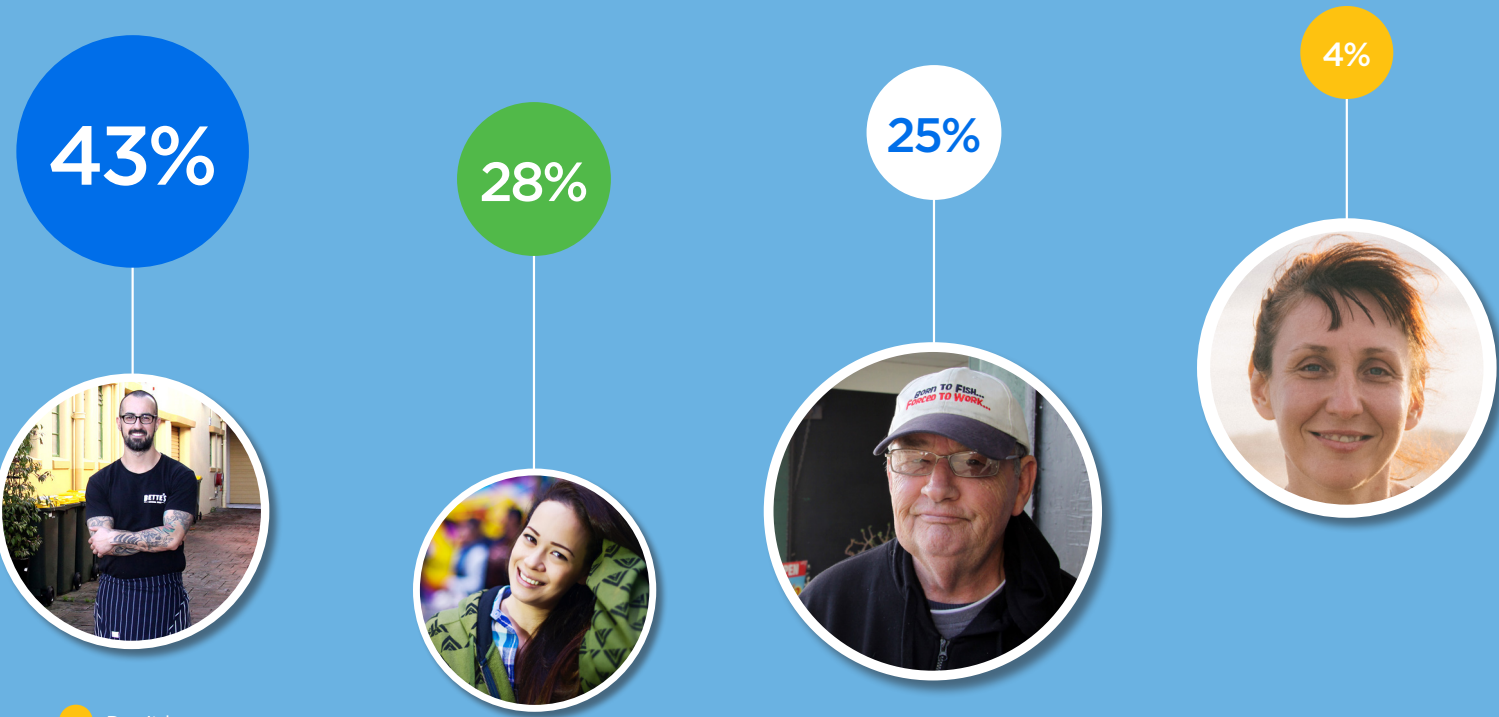




03 ACKNOWLEDGING FINANCIAL RISK AND KNOWING HOW TO MANAGE THE POTENTIAL IMPACTS

Looking to how financial risks are actively managed once they are acknowledged, over 40% of the respondents in this survey were not sure how they should manage the potential impact of financial risks, compared to 25% that did. Over 40% occasionally think about and consider this type of risk, but then forget about them.

I'm not really sure how I should manage these potential impacts



● Agree ● Neutral ● Disagree ● Don't know

No. of respondents = 2,061

New Zealanders aged 45-54 are least likely to think about financial risk, are most likely to know how to manage the potential impacts and are more likely to have insurance or other risk management in place.

Around 50% of this age group have a current personal insurance policy in place, indicating the reason that this group are not currently 'thinking about risk' as they have the protection in place to mitigate it, so have already thought about it and acted on it in the past.



04 LIKELIHOOD OF FINANCIAL RISK

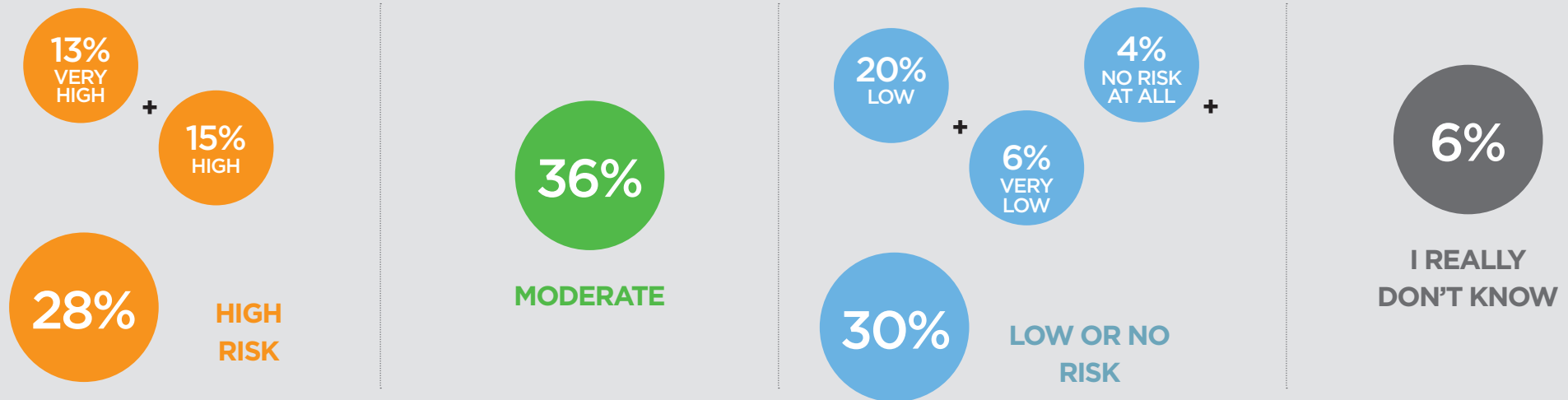
We asked respondents to rate how they viewed the perceived risk of a major financial problem if a serious event, for example a serious accident, happened to them or their family or the things they own.

The responses were evenly balanced across the low, moderate and high likelihood groupings, with a moderate risk of major financial problems being the most common response.

Overall, those that either consider there is a moderate or high risk of a major financial problem together represent just under two-thirds of respondents. The remaining 30% that see low or no risk were more likely to be under 24 or over 65 year olds.

Our research indicates that the majority of those in the moderate or high risk categories range across those age groups that are more likely to be economically active – eg Millennials through to early Baby Boomer generations.

PERCEIVED RISK OF MAJOR FINANCIAL PROBLEMS IF SOMETHING SERIOUS HAPPENED TO YOU, YOUR FAMILY OR THE THINGS YOU OWN



● High ● Moderate ● Low ● Don't know

No. of respondents = 2,060



05 MANAGING RISK

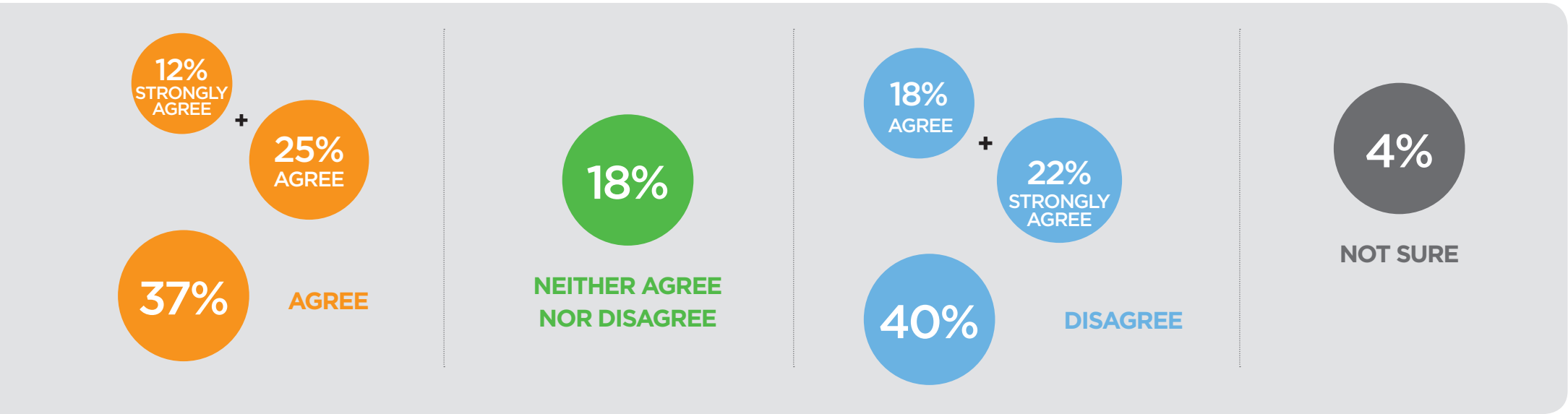
There are a number of ways to manage the risks faced by New Zealanders resulting from an unexpected event, whether in the short or longer-term.

SAVINGS FOR SHORT-TERM RISK

Experts often recommend that individuals should hold enough savings to cover at least three months of household expenses such as home loan, rent payments and other regular expenses to protect themselves against the potential short-term financial impact of not being able to work.

Of those surveyed, only 37% agreed that they have sufficient savings to cover their home loan/rent if they were off work for three months. Over 20% of New Zealanders surveyed said they strongly disagree that they have sufficient savings to cover their home loan/rent if they were off work for three months.

I HAVE ENOUGH SAVINGS TO COVER MY HOME LOANS/RENT IF I WAS OFF WORK FOR THREE MONTHS



● Agree ● Neither ● Disagree ● Not sure

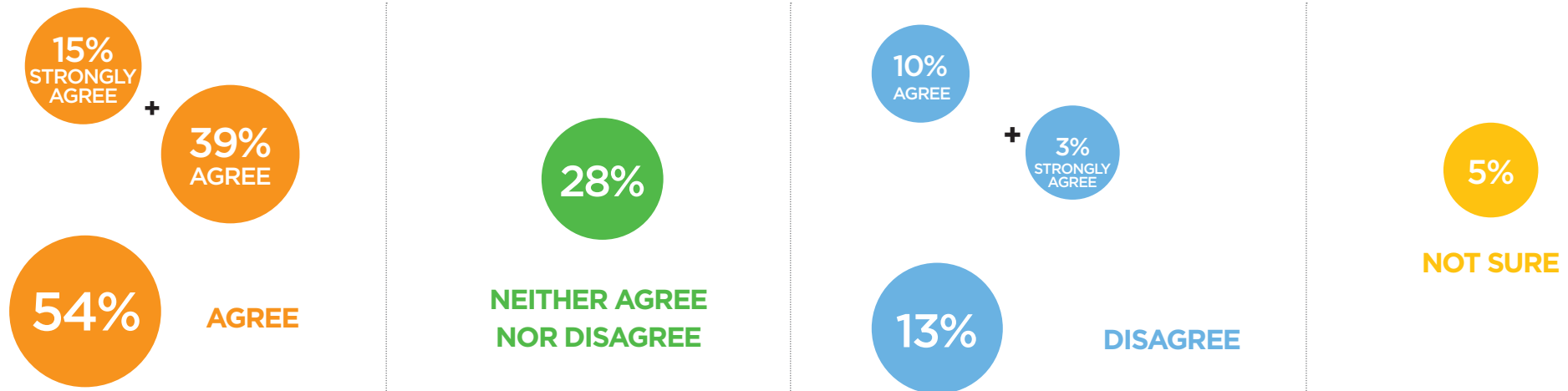
No. of respondents = 2,061



06 INSURING FOR LONGER-TERM RISK

Just over 50% of New Zealanders surveyed agreed or strongly agreed that it is important to have the right amount of insurance to cover the impact of potential risk events. 13% disagreed and strongly disagreed that having the right amount of insurance is important, half of which reported that they believed in 'self-insuring' rather than through an insurance provider.

HAVING THE RIGHT AMOUNT OF INSURANCE COVER IS IMPORTANT TO ME TO COVER THESE POTENTIAL IMPACTS



Agree Neither Disagree Not sure

No. of respondents = 2,061



07 HOUSEHOLD INCOME AND ATTITUDE TO MANAGING RISK

60% of respondents with household incomes over \$100,000 per year were more likely to agree that having the right amount of insurance cover was important to them to cover these potential impacts, compared with 54% of the total.

ATTITUDES TO PAYING FOR PERSONAL RISK INSURANCE

Respondents with an insurance policy were asked to indicate their attitudes to paying for risk insurance. Over 70% felt that life insurance was a small price to pay and 66% said that although it might be seen as costing quite a lot if things go wrong, they will be protected.

A small price to pay to protect me if things go wrong

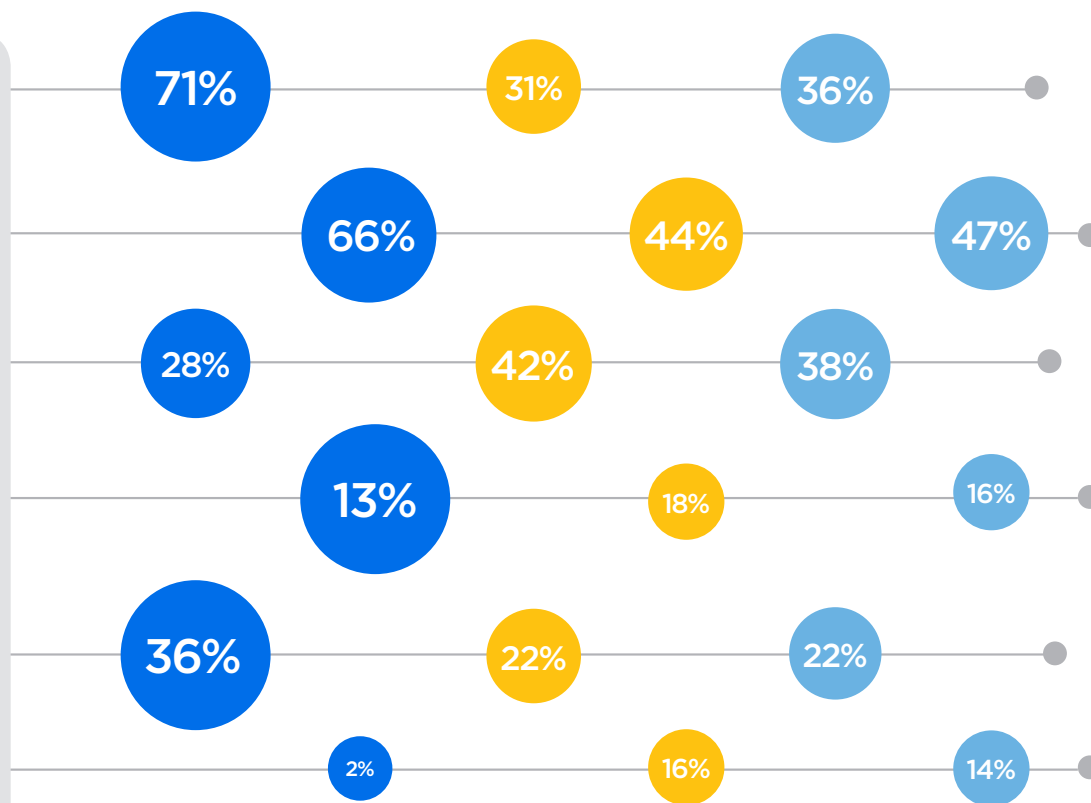
I have mixed feelings - on the one hand it costs quite a lot of money, but on the other hand, if things go wrong, I will be protected

These policies are too expensive for the protection they give

These policies are just a waste of money

I only need enough insurance to cover the important things I need to pay for each month

Don't know - I haven't given this much thought / I don't know how much it costs



*Base: n=860 with life insurance / n=332 with income protection insurance / n=336 with critical illness insurance



Life insurance



Income protection / mortgage repayment insurance



Critical illness insurance



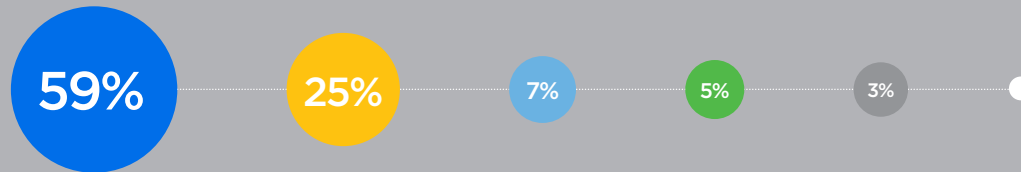
07 HOUSEHOLD INCOME AND ATTITUDE TO MANAGING RISK

Nearly 60% said that life insurance was a top priority as part of their household spending. Only 5% responded that it was not a priority at all and that they could easily drop it from their budget.

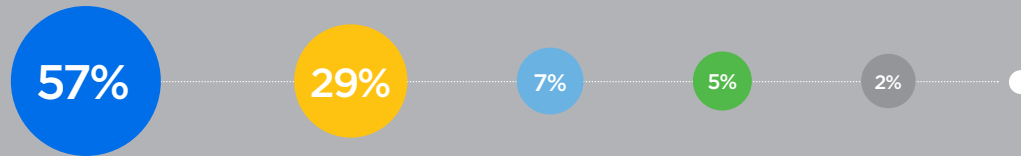
POSITION IN HOUSEHOLD SPENDING HIERARCHY



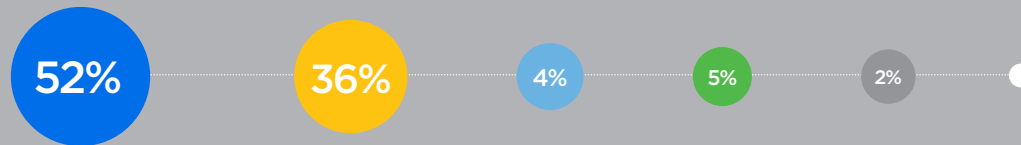
Life insurance



Income protection / mortgage repayment insurance



Critical illness insurance



- A top priority - an essential item that I must budget for
- A second priority - not essential but nice to have in my budget
- Not really a priority now by maybe in the future - I could probably drop from my budget
- Not a priority for me at all - I could easily drop this from my budget
- Not sure

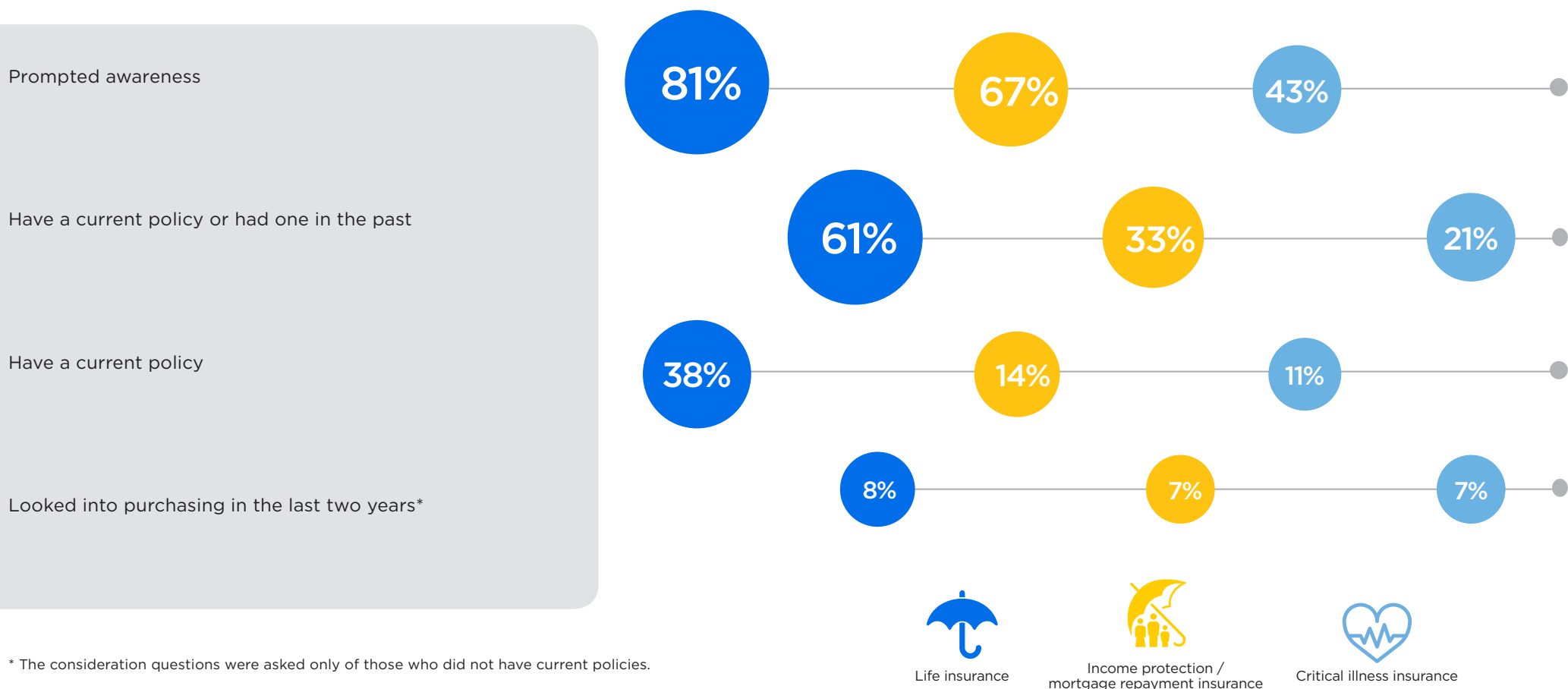
*Base: n=859 with life insurance / n=331 with income protection insurance / n=335 with critical illness insurance



08 AWARENESS, USAGE AND CONSIDERATION OF PERSONAL RISK PRODUCTS TO MITIGATE RISKS

When prompted, respondents were aware of personal risk products available to mitigate personal financial risks, with 81% aware of life insurance, 67% aware of income protection and 43% aware of critical illness insurance.

AWARENESS, USAGE AND CONSIDERATION OF RISK PRODUCTS



* The consideration questions were asked only of those who did not have current policies.

No. of respondents = 2,061

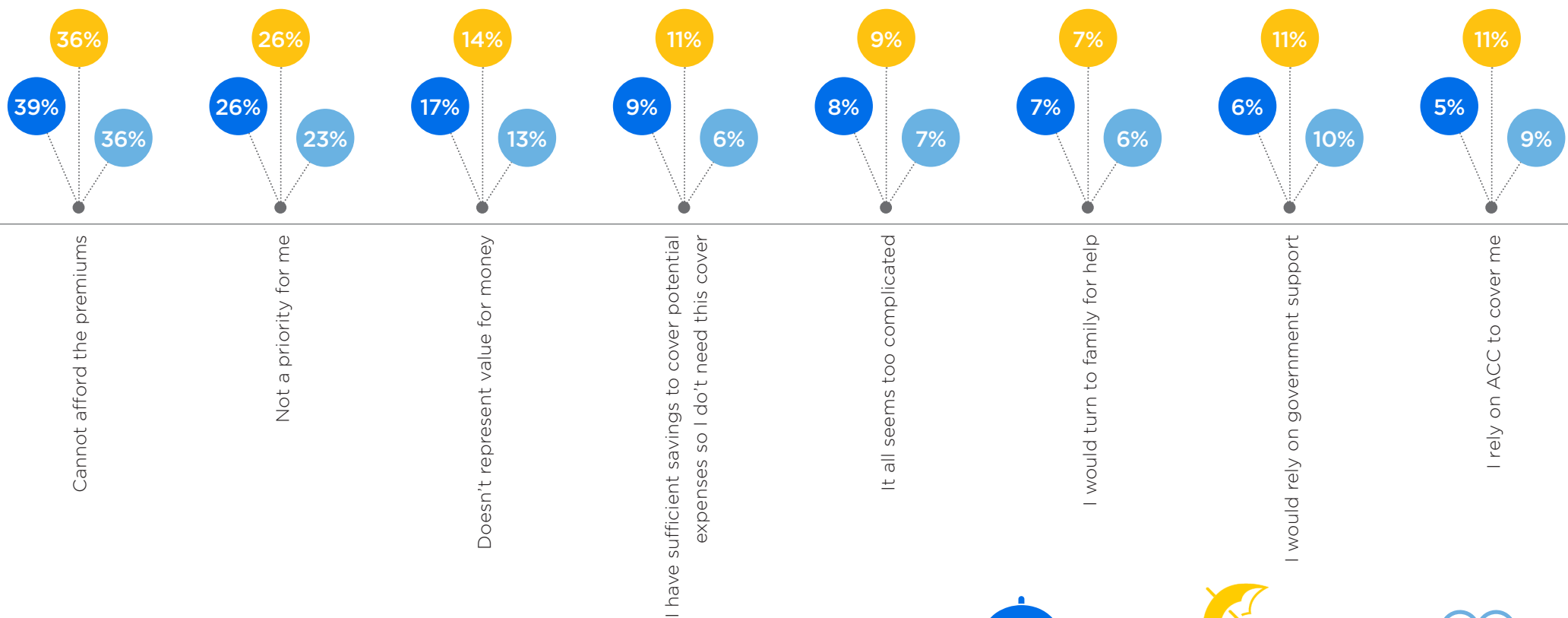


09 MAIN REASONS FOR BEING UNDER-INSURED

From a list of possible reasons, those who did not have insurance or had inadequate cover were asked the reasons for this choice. Their main reasons (representing 5% or more of all responses) are shown below.

The top three reasons were very similar for all three insurance types. Not being able to afford the premiums is the main reason, followed by not being a personal priority and thirdly not representing value for money.

MAIN REASONS FOR BEING UNDER-INSURED I.E. NOT HAVING THE VARIOUS RISK INSURANCE TYPES OR HAVING INADEQUATE COVER



*Base: n = 860 re: life insurance
n = 1,786 re: income protection insurance
n = 336 re: critical illness insurance



Life insurance



Income protection / mortgage repayment insurance



Critical illness insurance

10 ACTIVITIES UNDERTAKEN TO ASSESS FINANCIAL RISK

The research highlighted two key sources of information sought to mitigate risk. These were self-investigation and advice from others, whether from friends and family or professional financial advice.

SELF-INVESTIGATION

Most respondents had assessed their financial risk over the past two years. The majority assessed whether their property - car (34%), home contents (24%) or replacement cost of their home (21%) - were adequately covered.

When considering financial risk, 23% figured out how long they could cope financially if they became seriously ill or injured and 20% had worked out the financial impact on their household if they died.

ADVICE FROM OTHERS

In relation to questions relating to obtaining advice, 17% of respondents spoke with their families or friends to see what insurance cover they had, and slightly more - 18% - obtained professional advice, including from an insurance provider managing the potential impact of unexpected events.



34%
Motor



24%
Replacement of
home contents



21%
Replacement
of house

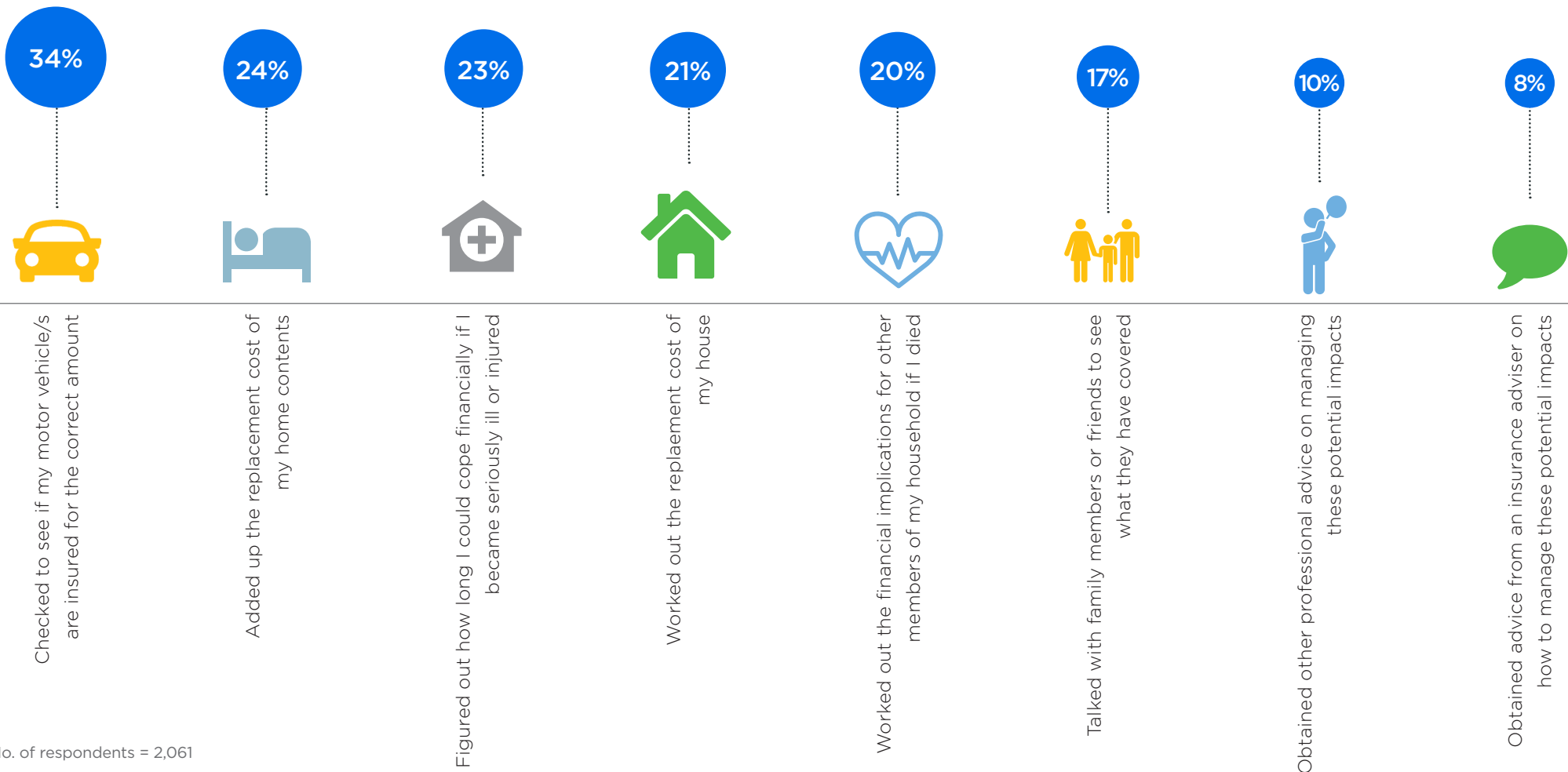




10 ACTIVITIES UNDERTAKEN TO ASSESS FINANCIAL RISK

HOW RESPONDENTS HAVE ASSESSED RISK IN THE PAST TWO YEARS

% OF RESPONDENTS



No. of respondents = 2,061



11 GOVERNMENT'S ROLE IN REDUCING THE FINANCIAL IMPACT OF PERSONAL RISKS

Everyone in New Zealand is covered by ACC's no-fault scheme if they're injured in an accident. This includes children, beneficiaries and students. It doesn't matter if they're working, unemployed or retired. It also includes visitors to New Zealand.

The cover provided helps pay for the costs of recovery from the injury. This includes payment towards treatment, help at home and work, and help with your income. (Source acc.co.nz)

36% of respondents agreed that they don't need to worry too much about paying for medical treatment resulting from major illness or accidents as it is mostly covered by the ACC and public health system.

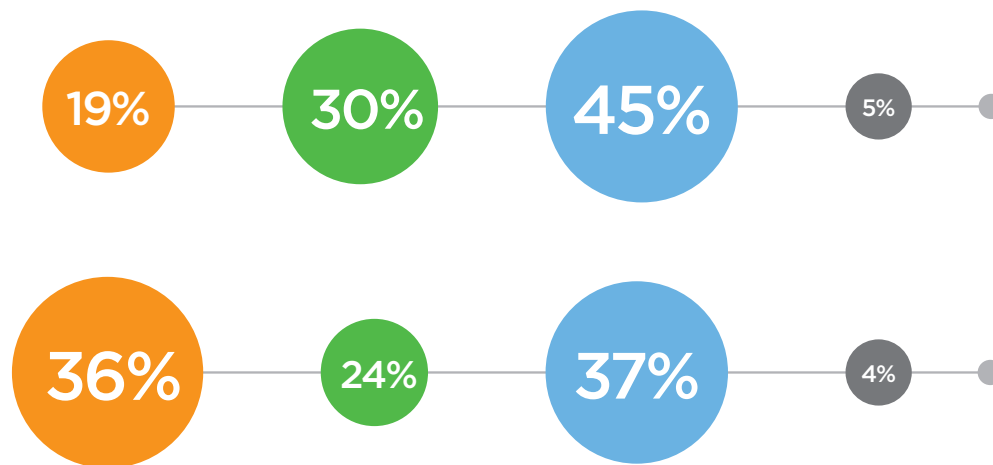
37% believe that they need to worry about paying for medical treatment despite the costs being met by the public health system and ACC.

45% believe that they need to worry about personal risks to themselves or their households even though ACC or sickness benefits will not take care of them.

BELIEF THAT ACC AND THE PUBLIC HEALTH SYSTEM WILL COVER PERSONAL RISKS

I don't need to worry too much about personal risks to myself or my household as ACC or the sickness benefit will take care of me

I don't need to worry too much about paying for medical treatment for major illnesses or accidents because this is mostly covered by the public health system or ACC

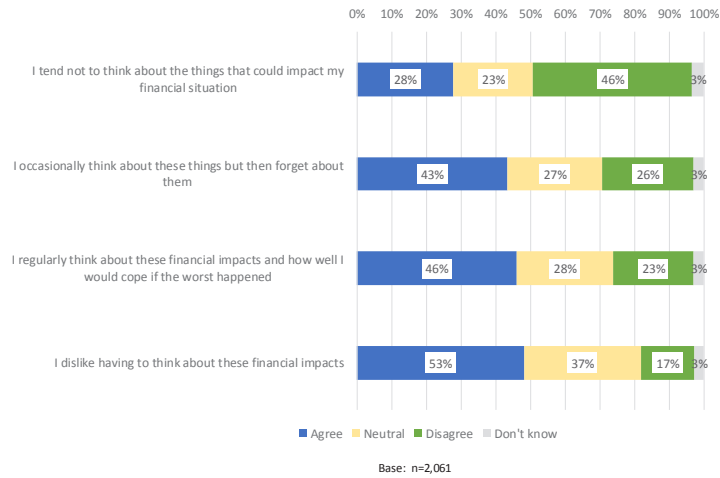


● Agree ● Neither ● Disagree ● Not sure

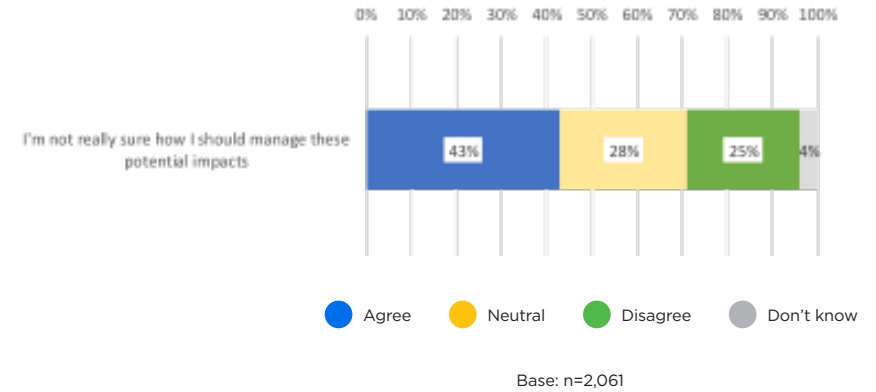
No. of respondents = 2,061

12 – APPENDIX DATA CHARTS

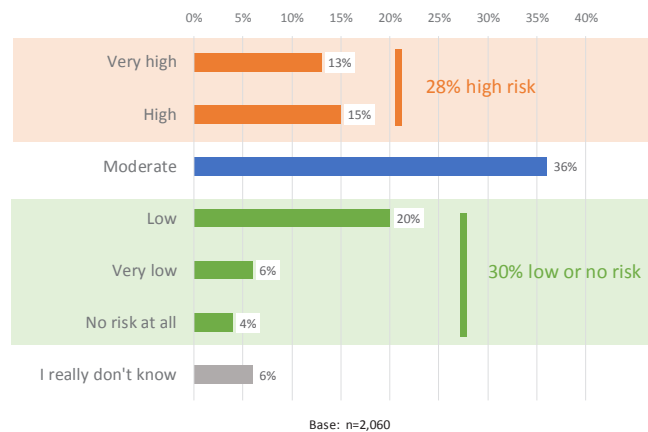
1. THINKING ABOUT FINANCIAL RISKS



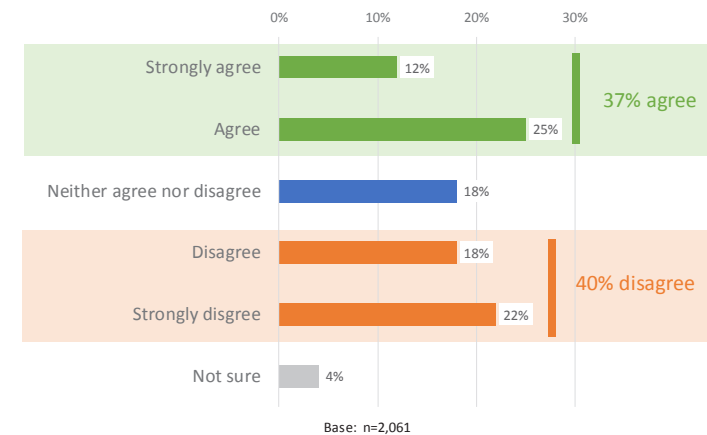
2. KNOWING HOW TO MANAGE FINANCIAL RISKS



3. PERCEIVED RISK OR MAJOR FINANCIAL PROBLEMS IF SOMETHING SERIOUS HAPPENED TO YOU, YOUR FAMILY OR THE THINGS YOU OWN

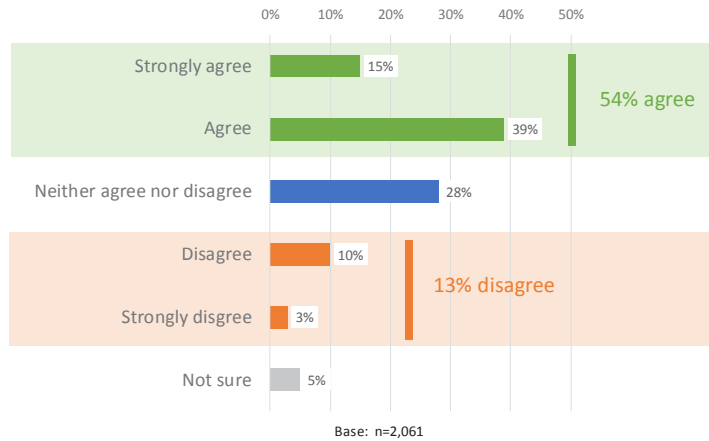


4. I HAVE ENOUGH SAVINGS TO COVER MY HOME LOANS/ RENT IF I WAS OFF WORK FOR 3 MONTHS

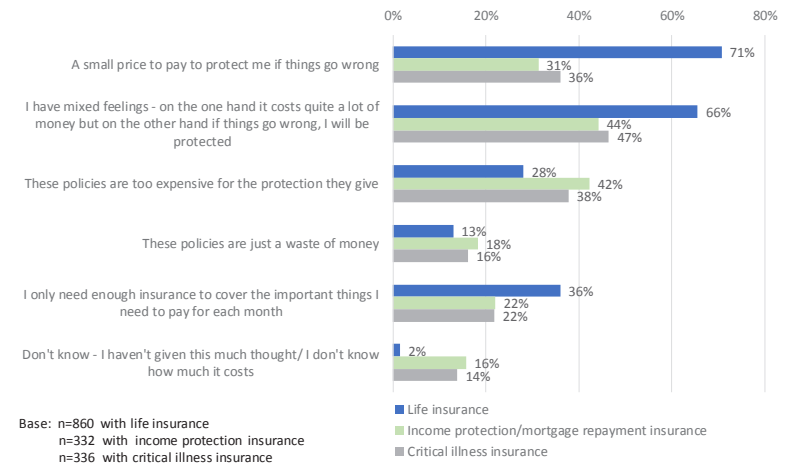


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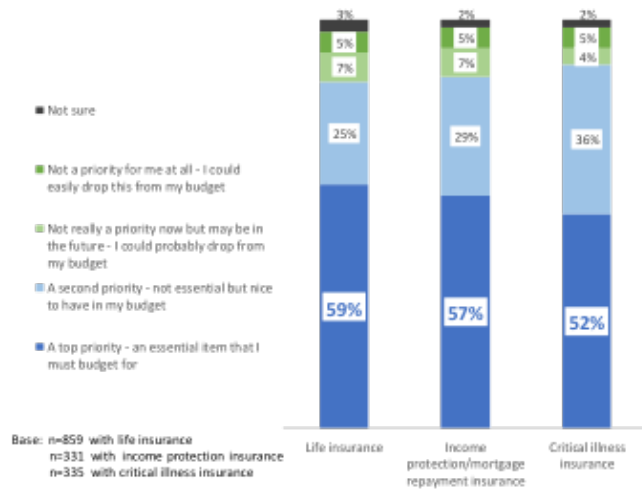
5. HAVING THE RIGHT AMOUNT OF INSURANCE COVER IS IMPORTANT TO ME TO COVER THESE POTENTIAL IMPACTS



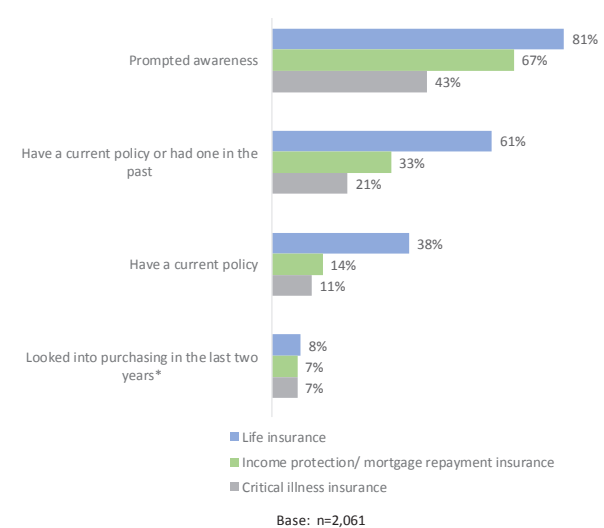
6. ATTITUDES TO PAYING FOR RISK INSURANCE



7. POSITION IN HOUSEHOLD SPENDING HIERACHY



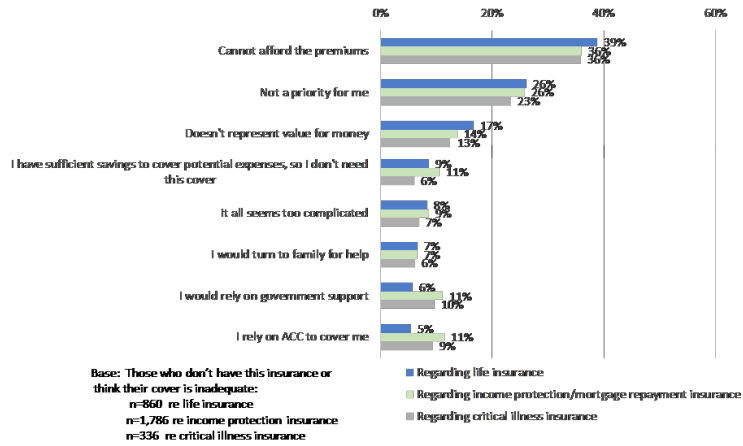
8. AWARENESS, USAGE AND CONSIDERATION OF RISK PRODUCTS



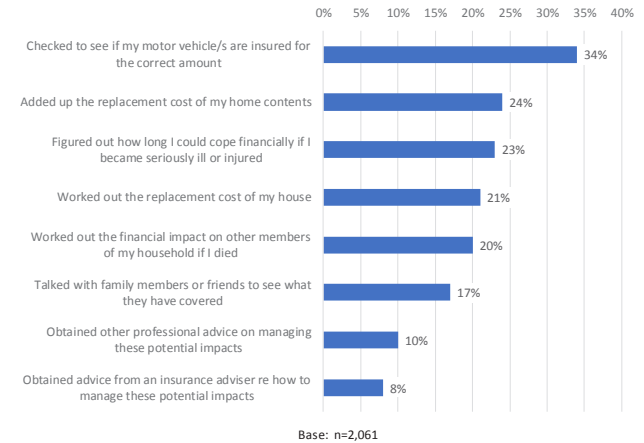
*Although the consideration questions were asked only of those who did not have current policies, the results shown are based on the full sample of n=2061

12 – APPENDIX DATA CHARTS

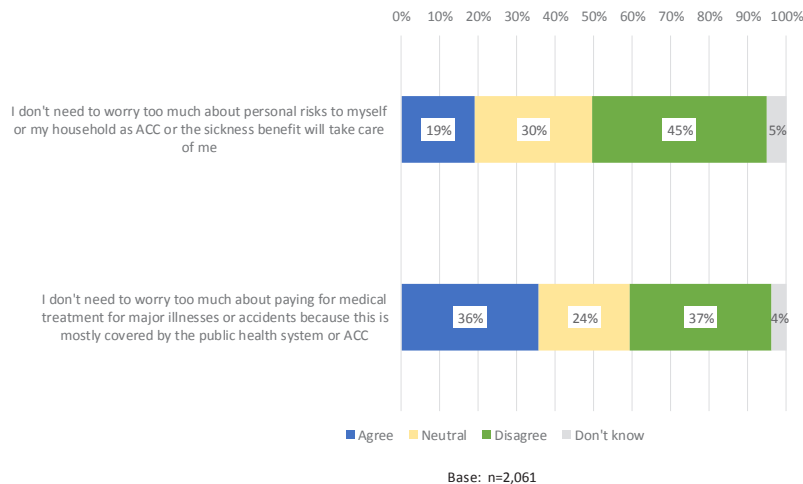
9. MAIN REASONS FOR BEING UNDER-INSURED I.E. NOT HAVING THE VARIOUS RISK INSURANCE TYPES OR HAVING INADEQUATE COVER



10. ACTIVITIES UNDERTAKEN TO ASSESS FINANCIAL RISK AND HOW TO MANAGE THIS IN THE LAST TWO YEARS



11. BELIEF THAT ACC AND THE PUBLIC HEALTH SYSTEM WILL COVER PERSONAL RISKS



13 – ANNEX – SURVEY METHODOLOGY

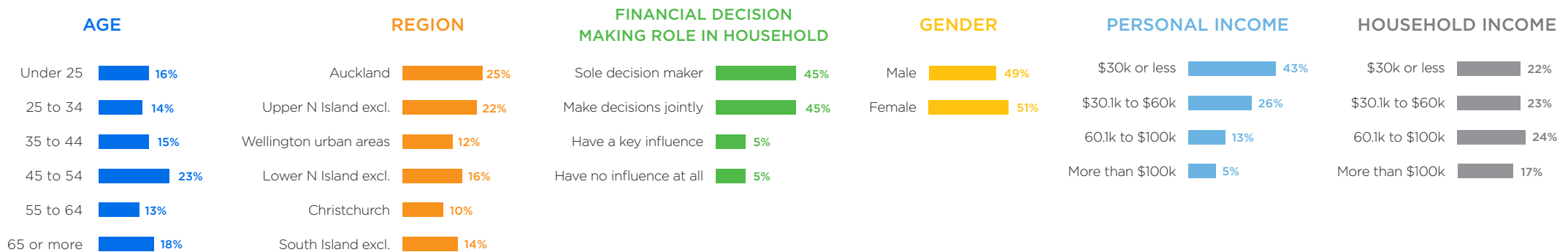
The Financial Services Council commissioned an independent survey of 2,061 New Zealanders aged 18 or more, with the sample sourced from Horizon Research’s HorizonPoll panel and Research Now panel.

The sample was weighted by age, gender, personal income, highest education level and employment status to match the New Zealand population aged 18 or more at the 2013 Census.

Target Audience	The adult population aged 18 plus excluding those working in mass media, banking, insurance, public relations or market research
Sample sources	The Horizon Poll and the Research Now online panels
Sample size	n=2,061
Predicted margin of error	Maximum ±2.2% at the 95% confidence level
Weighting of results	Results were weighted by age, gender, highest education level, personal income and employment status to the national population aged 18 plus based on the 2013 Census

SAMPLE PROFILE

The following charts show the weighted sample profile:



14 – ABOUT THE FINANCIAL SERVICES COUNCIL

The Financial Services Council is a non-profit member organisation and the voice of the Financial Services sector in New Zealand. Our 35 members comprise 95% of the life insurance market in New Zealand, and manage funds of more than \$47.5bn. Members include the major insurers in life, disability and income insurance, fund managers, KiwiSaver, professional services and technology providers to the financial services sector.

fsc.org.nz

MEMBERS



ASSOCIATE MEMBERS



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