

# Thematic Report - Lifetime Risk Profiling and Insurance Literacy

AUGUST 2022

# LIFETIME RISK PROFILING AND INSURANCE LITERACY

## I. BACKGROUND

In 2021, the Insurance Authority (IA) launched a thematic public education campaign entitled “Lifetime Risk Profiling” with a view to understanding and providing a comprehensive depiction of different financial risk exposures facing individuals throughout their lifetime. As part of the campaign, a new thematic sitelet<sup>1</sup> and an online protection needs assessment tool<sup>2</sup> went public in the second half of 2021. These deliverables serve to satisfy the information needs of the general public regarding risk management problems, protection needs, and the use of different types of insurance, along a person’s life journey. As the deliverables are rolled out, the next step in the campaign is to gauge the general insurance literacy level of different life stages in Hong Kong, thereby setting a baseline for future tracking. This ensures that ongoing public education efforts are well spent to achieve education objectives.

Against this backdrop, the IA conducted an Insurance Literacy Tracking Survey<sup>3</sup> (ILTS) in 2021 to understand levels of insurance literacy among the general public in Hong Kong. Riding on the findings of the ILTS, this thematic report investigates differences in insurance literacy by life stages. This should shed some light<sup>4</sup> on how knowledge and skills, attitude, and behaviour towards insurance solutions change along one’s life journey, as well as the difficulties that arise as one ages.

The five life stages defined in the ILTS are 1) *Youth*, 2) *Career Starters*, 3) *Mature Working Adults*, 4) *Married Persons* and 5) *Pre-retirees & Retirees*. More details about the five life stages can be found in the **Appendix**.

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<sup>1</sup> Available at <https://education.ia.org.hk/en/index.html>

<sup>2</sup> Available at <https://education.ia.org.hk/en/tool/calculator.html>

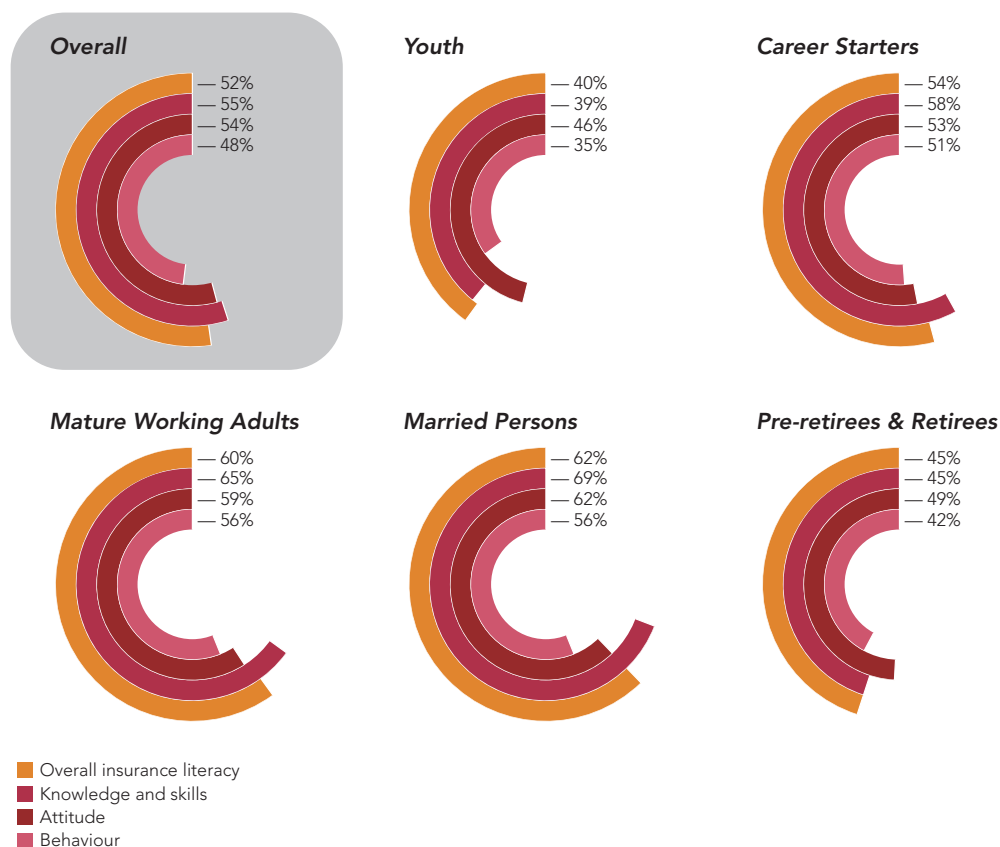
<sup>3</sup> Available at [https://www.ia.org.hk/en/infocenter/files/Insurance\\_Literacy\\_Tracking\\_Survey\\_Main\\_Report\\_Eng.pdf](https://www.ia.org.hk/en/infocenter/files/Insurance_Literacy_Tracking_Survey_Main_Report_Eng.pdf)

<sup>4</sup> In interpreting the insurance literacy of different life stages, caution should be paid to the limitation that respondents in each life stage are unique persons. While the different performance of different life stage groups may give some clue on changes along a person’s life journey, influence from other factors such as socio-economic background, life planning and risk appetite of the individuals should be considered.

## II. INSURANCE LITERACY SCORES AND SALIENT FINDINGS BY LIFE STAGE

Figure 1 illustrates the different levels of insurance literacy of the five life stage groups.

**Figure 1 Insurance Literacy Scores by Life Stage**



As a general comparison between the life stages, **Married Persons performed the best in the insurance literacy assessment, followed by Mature Working Adults and Career Starters. Youth were the least insurance literate, followed by Pre-Retirees & Retirees;** both groups scored less than 50% on all three dimensions of the literacy score — namely knowledge and skills, attitude and behaviour<sup>5</sup> — as well as the overall insurance literacy score.

<sup>5</sup> In 2021, the IA developed an insurance literacy measurement framework with a scoring system to evaluate insurance literacy in Hong Kong and track trends in insurance literacy on a regular basis. For the framework, methodology and full set of questions in the survey, please refer to the *Report on Insurance Literacy Tracking Survey in Hong Kong 2021*, available at [https://www.ia.org.hk/en/infocenter/files/Insurance\\_Literacy\\_Tracking\\_Survey\\_Main\\_Report\\_Eng.pdf](https://www.ia.org.hk/en/infocenter/files/Insurance_Literacy_Tracking_Survey_Main_Report_Eng.pdf).

Conceivably, the difference in scores between different life stages can be attributed to their corresponding perception of risk, family burden and life planning:

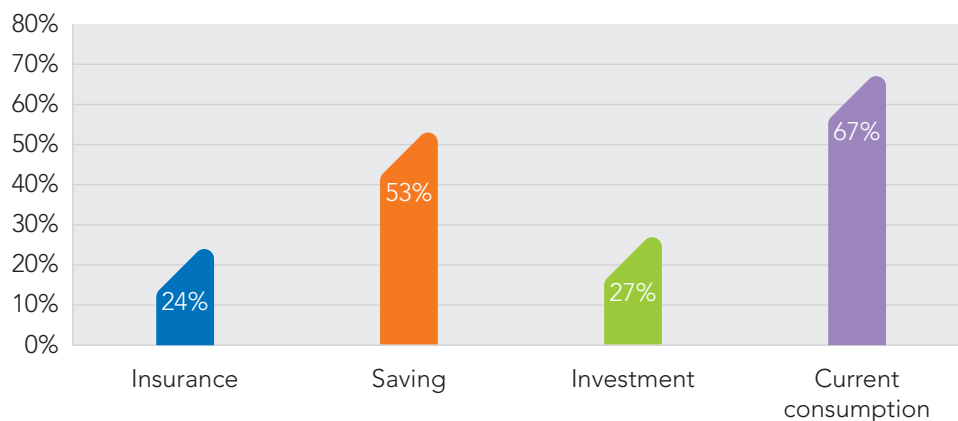
## Youth

For **Youth** who are still receiving education and financial support from their family, it is understandably rare for them to think of future financial burdens. They will have little idea of their family's current expenses, let alone their parents' future needs. Life planning is also typically absent at this stage. Due to no sense of urgency, **Youth** may not see any obligation to understand insurance and thus will put no effort into it.

### Further findings about Youth:

- *Attitude:* When asked about different ways to manage income and spending, **Youth tend to put most emphasis on consumption (67%) and saving (53%); less than one in four (24%) put emphasis on insurance** — with around one third putting no emphasis at all on insurance.

**Figure 2 Emphasis Placed on Different Ways of Financial Planning by Youth**





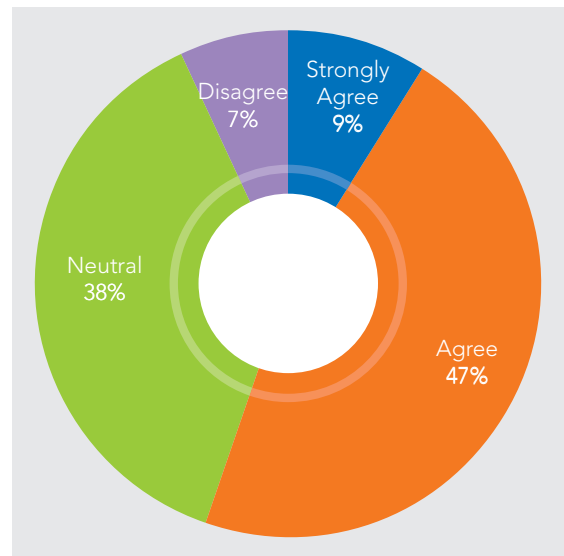
- **Awareness:** Only about half of Youth respondents (56%) acknowledged that they would need different types of insurance at different life stages. More than one in three (38%) were ambivalent on this issue.

**Figure 3 Youth's level of agreement on whether they need different types of insurance at different life stages**

Survey question:

**Please indicate your level of agreement with this statement.**

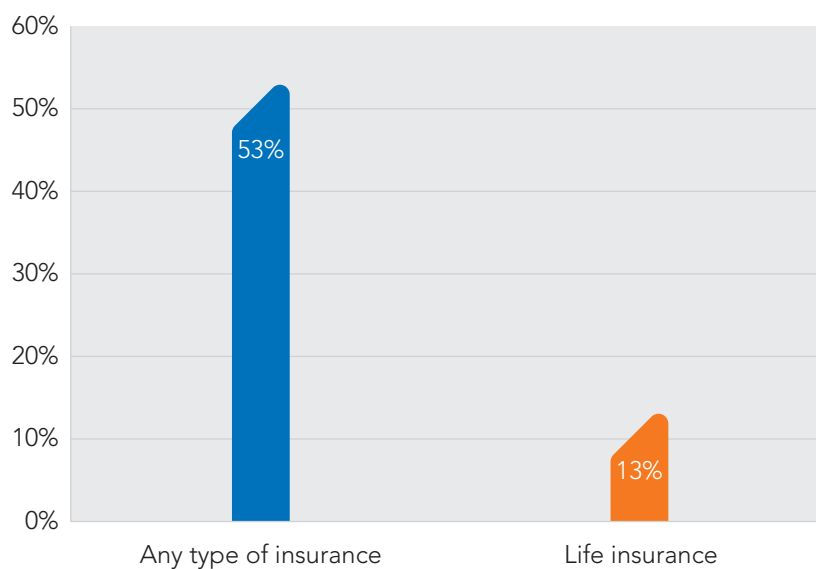
***"At different stages of our lives, under different circumstances, we face different risks and have different protection needs. Therefore, we need different types of insurance to respond."***



*Note: Figures may not add up to 100% due to rounding.*

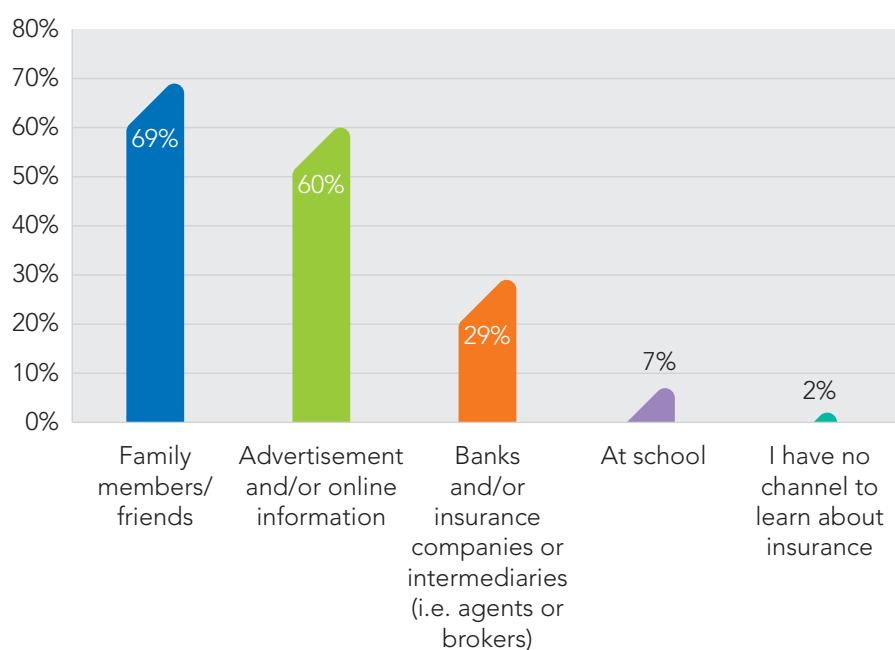
- **Ownership:** 53% of Youth own some insurance; 13% own life insurance (all with a saving or investment element).

**Figure 4 Ownership of Insurance by Youth**



- **Channel:** The most common channels this group used to learn about insurance were: "Family members/friends" (69%), "**Advertisement and/or online information**" (60%) and "**Banks and/or insurance companies or intermediaries** (i.e. agents or brokers) (29%)"; only 7% said they learnt about insurance at school.

**Figure 5 Channels of Information Used by Youth**



## Career Starters, Mature Working Adults and Married Persons

Compared to Youth, **Career Starters** may start to take on more financial responsibility, as their parents may be entering retirement and they may be more incentivised to focus on improving their financial planning. Having said that, they still typically have less imminent protection needs, as well as lower risk of mortality/morbidity, so they put less focus on insurance. This burden will only become more obvious with age and clear life planning. This can explain their lower literacy scores than *Mature Working Adults* across-the-board.

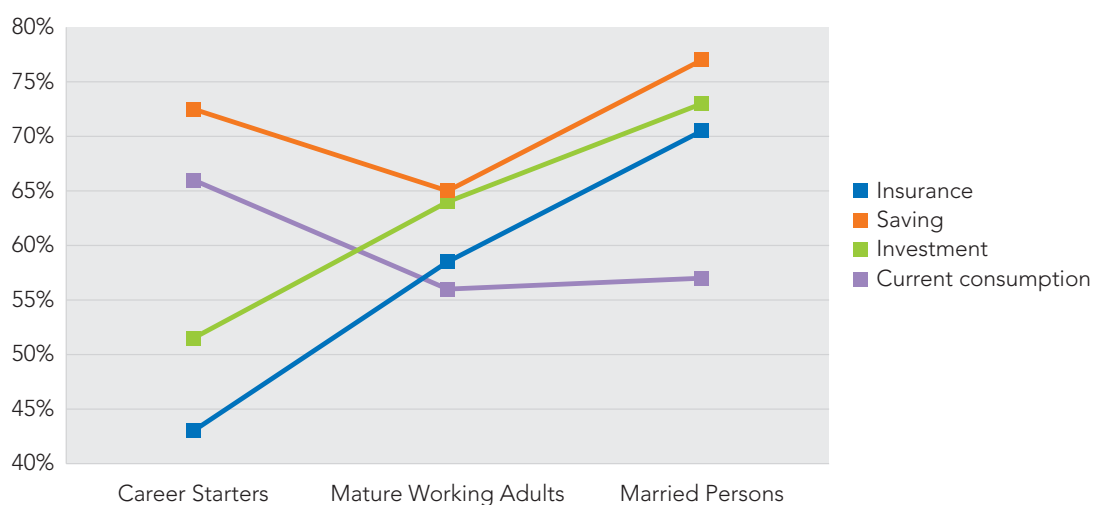
As age increases, a **Mature Working Adult's** physical and financial condition may undergo significant changes. For example, one may feel less healthy, and may own more properties. Moreover, as quality of living improves with age and income, there may also be more lifestyle-related protection needs (e.g. travel and motor insurance).

**Married Persons** in particular, often being the financial backbone of the family, will be responsible for ensuring their dependents maintain a decent standard of living in the event of unexpected vicissitudes, such as their own premature death.

### Further findings and comparison between the three life stages:

- **Attitude:** The majority of *Career Starters* (61%) agreed or strongly agreed that insurance is an important service for everyone, though the percentage is lower than *Mature Working Adults* (72%) and *Married Persons* (75%). Having said that, **less than half (43%) of Career Starters put much emphasis on insurance, way below that on current consumption. This is the opposite of the situation in the latter two life stages (i.e. Mature Working Adults and Married Persons).**

**Figure 6 Emphasis Placed on Different Ways of Financial Planning by Life Stage**



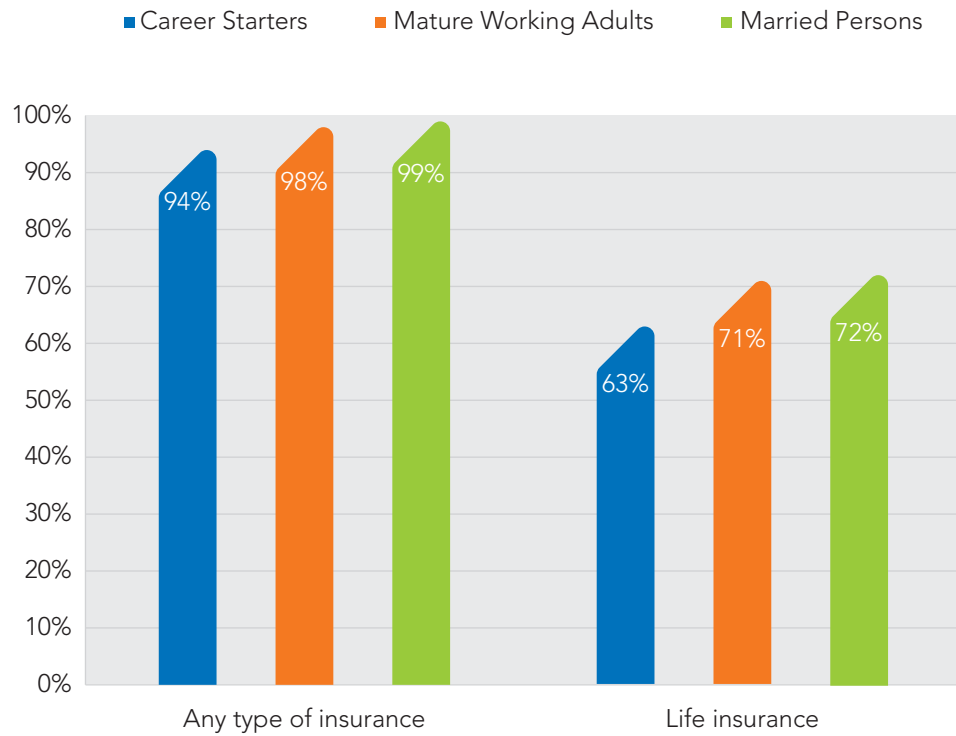
- **Awareness:** A supermajority of the three groups (over 85%) acknowledged that they would need different types of insurance at different life stages. However, only 52% of *Career Starters* understood that the main purpose of life insurance is to provide a lump sum benefit to support dependents, compared to 69% of *Mature Working Adults* and 74% of *Married Persons*.

**Figure 7 Knowledge about Main Purpose of Life Insurance by Life Stage**



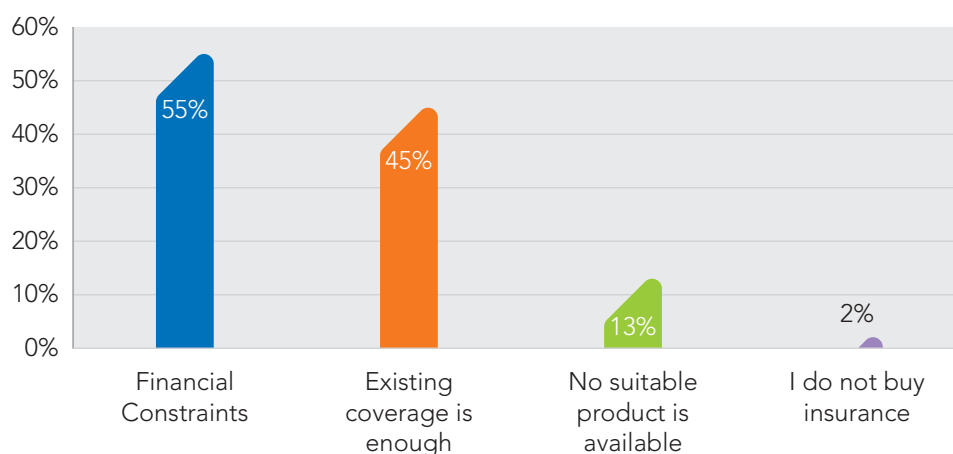
- **Ownership:** The percentages of *Career Starters*, *Mature Working Adults* and *Married Persons* who owned an insurance policy were 94%, 98% and 99% respectively. The corresponding percentages for life insurance were 63%, 71% and 72%.

Figure 8 Ownership of Insurance by Life Stage



- *Difficulty:* Married Persons were asked if they had bought or considered buying additional insurance for themselves in order to reduce the potential financial burden on their family, with 74% of them answering in the affirmative. **For those without a plan, financial constraints (55%) was the top reason**, followed by their belief that they had enough existing coverage (45%). About one in ten (13%) also said there was no suitable insurance product available.

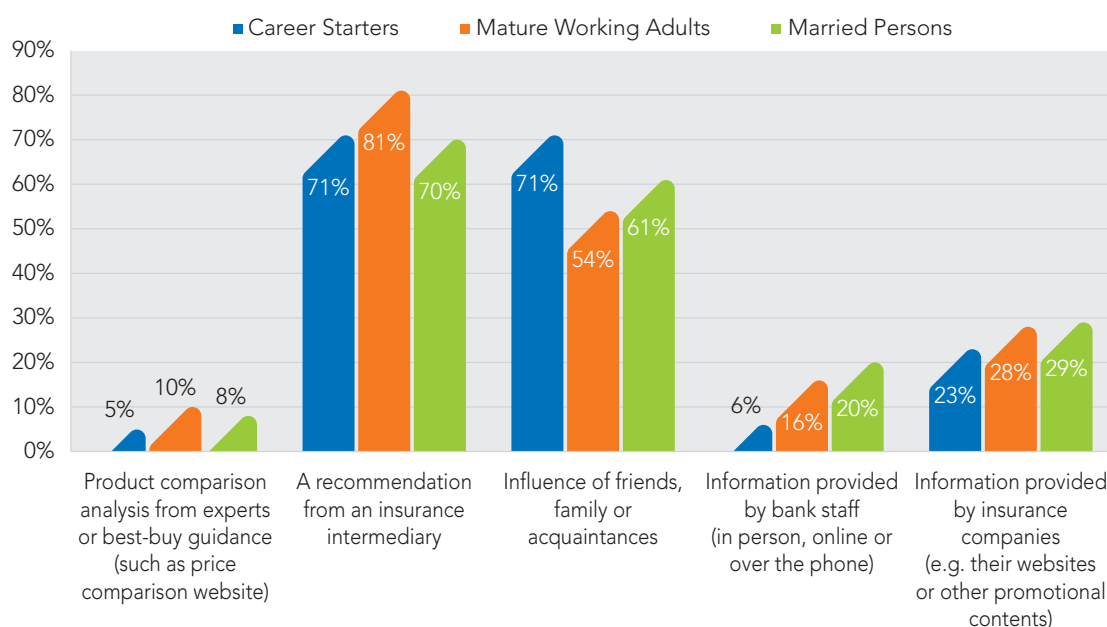
**Figure 9 Married Persons' Reasons Behind Not Buying Additional Insurance for Family Protection**



- Channel:** The majority of *Career Starters* (71%), *Mature Working Adults* (81%) and *Married Persons* (70%) trust the recommendations of an insurance intermediary when they buy insurance. They are also influenced by friends, family or acquaintances (71%, 54% and 61% respectively for the three life stages). Other channels (in decreasing order of importance) include: information provided by insurance companies through websites or other promotional content, information provided by bank staff, and product comparison analysis from experts or best-buy guidance (such as price comparison websites)<sup>6</sup>.

<sup>6</sup> Please note that the question for figure 10 focuses more on detailed breakdown of individuals and intermediaries that can provide information on insurance. This cannot be compared directly with the question for figure 5, which is a tailor-made question for Youth distinguishing online and offline channels.

Figure 10 Types of Information Channel by Life Stage



## Pre-Retirees & Retirees

Compared to the earlier life stages, **Pre-Retirees & Retirees**<sup>7</sup> have bigger longevity and retirement issues. Medical insurance is also particularly relevant.

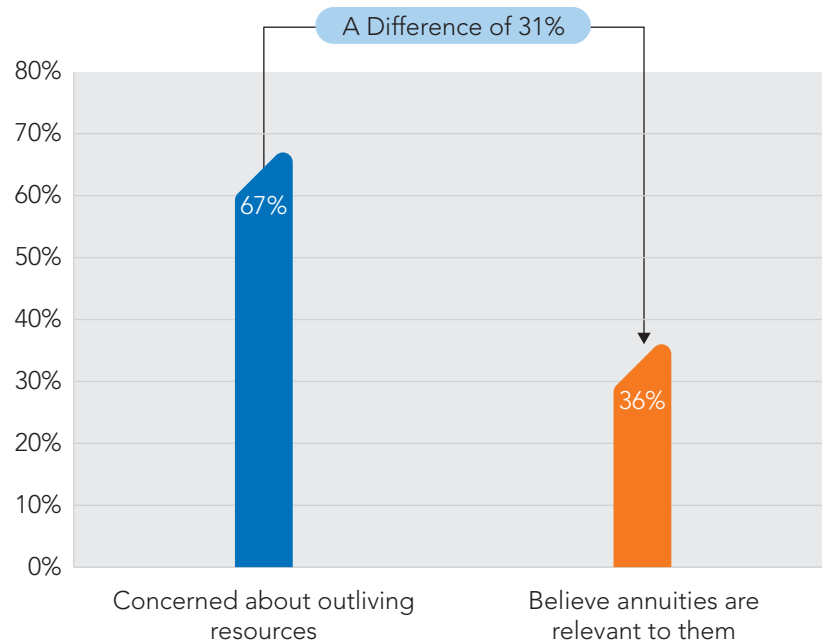
### Further findings about **Pre-Retirees & Retirees**:

- **Attitude:** Up to 67% said they were worried about outliving their financial resources. However, only 36% believed annuities were relevant to them.

<sup>7</sup> It should be noted that the survey sample group is the least homogenous group among the five life stage groups, in terms of socio-economic background such as education and income level. Therefore, this part discusses more their performance on retirement-specific questions rather than comparison of insurance literacy scores with other life stages.

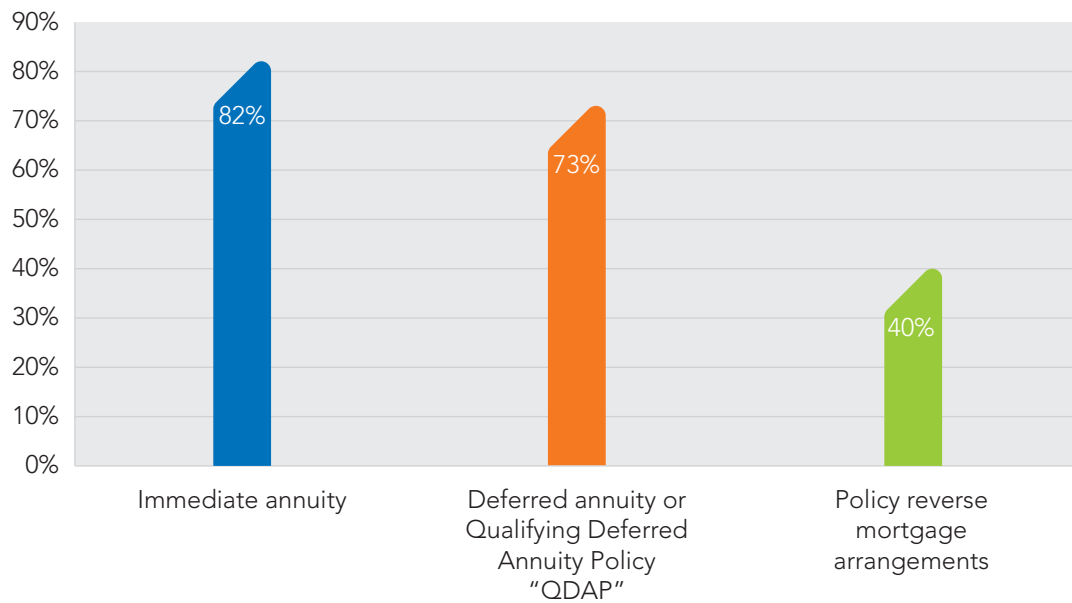


**Figure 11 Awareness of Longevity Risk and Perceived Relevance of Annuities**

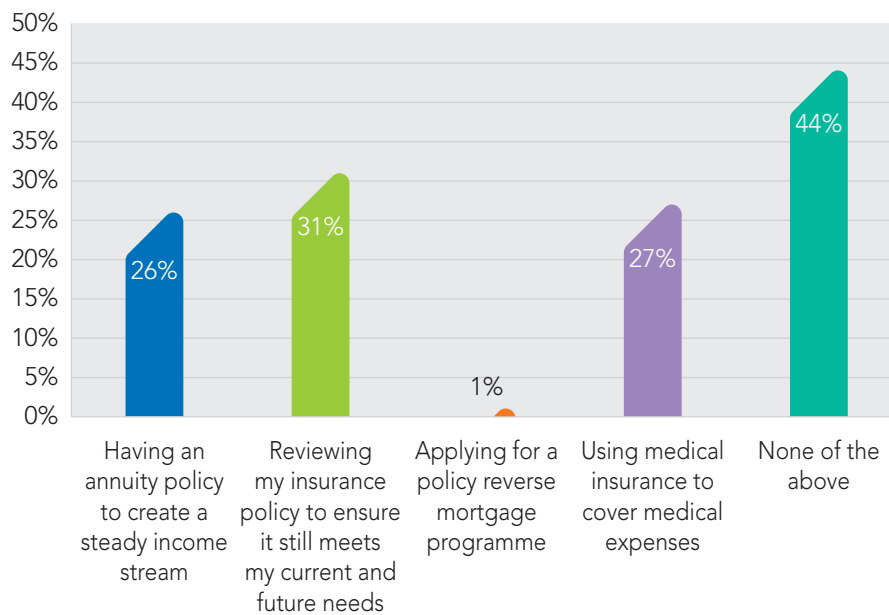


- Awareness:* While most *Pre-Retirees & Retirees* were aware of the options of immediate (82%) and deferred annuities (73%), only 26% were considering or using annuities for their retirement planning. Indeed, **24% of the group said that they were not sure what information they would need to consider in order to choose the insurance policy most suitable for them.** The development of policy reverse mortgage arrangements is another option for retirement planning. Only 40% of the *Pre-Retirees and Retirees* were aware of such arrangements and only 1% were using or considering a policy reverse mortgage.

**Figure 12 Awareness of Selected Retirement Planning Options of Pre-retirees and Retirees**

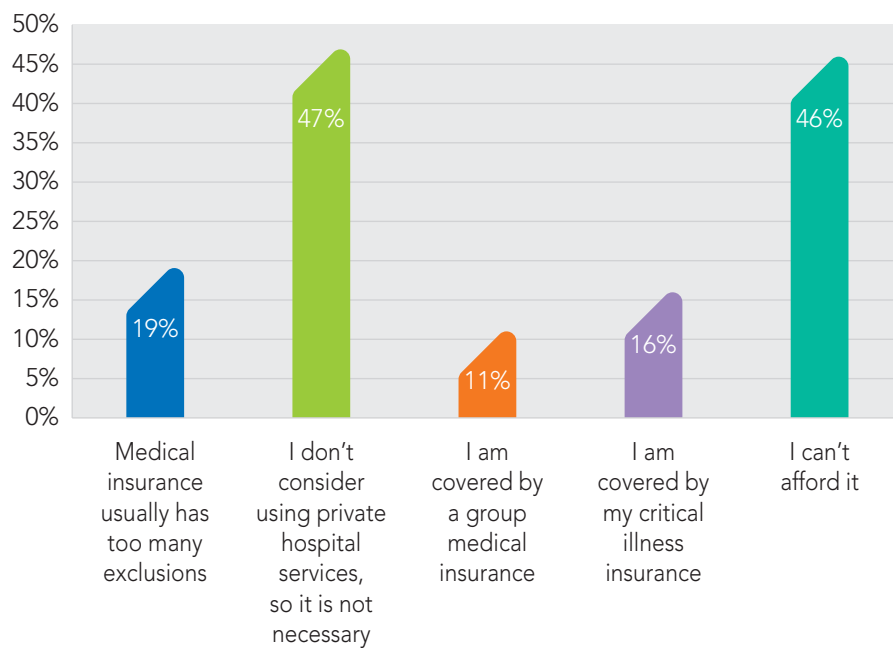


**Figure 13 Percentages of Pre-retirees and Retirees Using or Considering Using Selected Types of Retirement Planning Options**



- Difficulty:** When asked why they have not taken out individual medical insurance, close to half of the *Pre-Retirees & Retirees* said they “don’t consider using private hospital services, so it is not necessary” (47%), or that **they “can’t afford it” (46%)**.

**Figure 14 Reasons behind Pre-retirees and Retirees Not Taking Out Private Medical Insurance**



- Ownership:** Up to 44% said they did not consider and were not using an annuity policy, a policy reverse mortgage or medical insurance for retirement planning, and were not reviewing their insurance policies to ensure their protection needs were met.

### III. IMPLICATIONS

#### Seizing opportunities at younger ages

Unlike other financial products, where prices are linked to the cycles of the macroeconomy, insurance (particularly life products) is usually tied to mortality risk. The price goes up as you get older. The unique feature of mortality risk pricing highlights the importance of considering insurance as one of your risk management tools from a younger age.

Without a basic understanding of insurance, **Youth** and **Career Starters** may be unaware that some consumption-type insurance — such as accident, health or travel insurance — are already needed at their current stage. More importantly, they also ignore the fact that their future essential coverage, such as life insurance, will be typically more expensive if purchased later. The result is a failure to fill the immediate protection gap, as well as missing the opportunity to obtain future coverage at a lower cost.

With more substantial financial burdens and a complex risk profile, comprising mortality, morbidity, property, liability, etc., **Mature Working Adults** and **Married Persons** are likely to be more interested in obtaining (extra) insurance coverage. An inconvenient truth is that, by the time they can properly assess their protection gap, additional coverage will already be pricier than when they were younger. As shown by survey findings, both **Married Persons** and **Pre-Retirees & Retirees** faced the problem of affordability when they considered additional coverage/medical insurance.

The knowledge gap at younger stages and the affordability problem at later stages imply that public education efforts should be made to convey the benefits of earlier life planning, financial planning and risk management among the younger generations. As the behaviour of young people changes, Hong Kong's overall protection gap can hopefully be narrowed in the years to come.

#### Online information is an effective channel in youth education

The survey showed that online information has been cited as an important channel by **Youth** to learn about insurance. Moreover, education efforts for different life stages should have different focuses:

**Youth and Career Starters:** When learning about insurance, younger people may need to start from scratch. Websites that can provide basic lessons about risk management and the purpose of different types of insurance would be useful. For **Career Starters**, who may soon become their family's breadwinner, it is equally important to instill the idea of changing protection needs over time in a clearly articulated and visualised way. For instance, the protection needs assessment tool provided by the IA<sup>8</sup> can project and explain changes in the mortality protection gap along one's lifetime, and how it is affected by life events (e.g. parents' and spouse's retirement, childbirth, home-purchase), thereby demonstrating the importance of early risk management and insurance planning:

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<sup>8</sup> Available at <https://education.ia.org.hk/en/tool/calculator.html>

**Figure 15 Demonstration of the Insurance Authority's Protection Needs Assessment Tool**

Your largest protection gap appears at  
**42 years old**

At the moment with the largest protection gap, you may need to shoulder:

- General household expense
- Outstanding residential mortgage
- Spouse's medical needs
- Education and medical needs of 2 children

Afterwards, your mortality protection gap will decrease, under the effect of wealth accumulation and reduction in financial burden (e.g. debt repaid, dependents' future need decreases)

**Largest protection gap will be at: 42 years old**

Own a flat: 30 years old

Childbirth: 34, 36 years old

Spouse stops working: 42 years old



\* Figures in nominal terms are calculated at the then-prevailing market prices. i.e. not net of the effect of inflation. For instance, assuming that you are now 25 years old, the protection gap at age 35 is calculated at the price level 10 years later, which usually is not equivalent to current price level.

Specifically, education efforts should ensure that young people understand the following:

- o What future factors/life events will affect the mortality protection gap along their life journey, and why;
- o How their lifestyle will affect their needs for non-life protection (e.g. travel, health & accident);

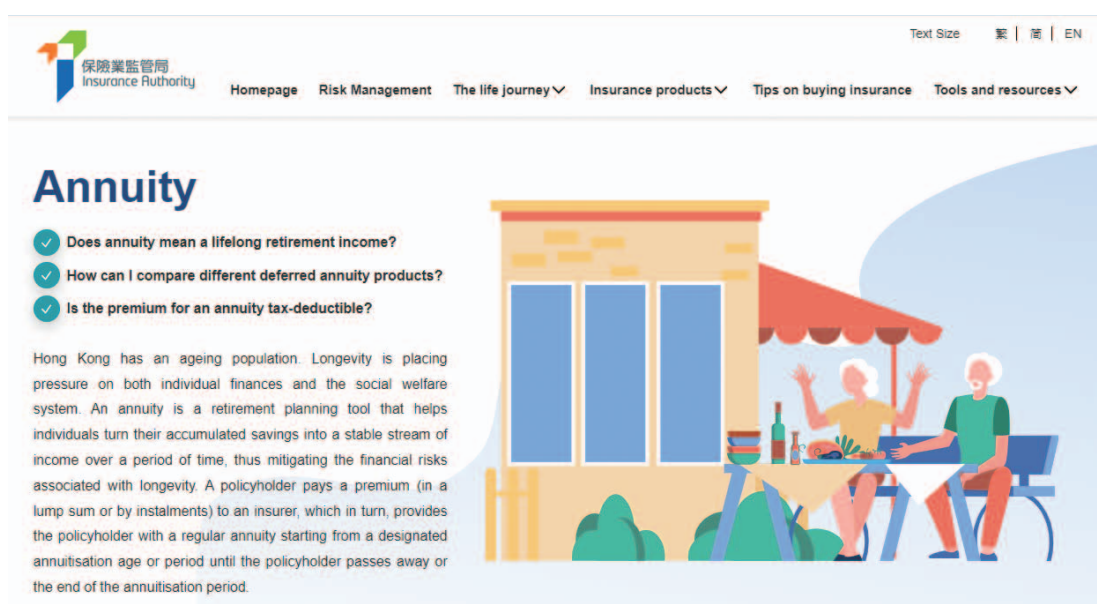
- o The fact that they are more insurable and can pay a lower price for insurance at an earlier life stage/when they are healthier;
- o The availability of different life insurance products, including pure protection and savings/investment-related; and
- o The regular use of neutral online information and protection needs assessment tools.

**These combined should show the importance of earlier life planning and subsequent financial planning, and proper use of insurance with available financial resources.**

**Mature Working Adults and Married Persons:** As mature breadwinners bear a larger financial burden, they may contemplate additional insurance coverage. While they may have achieved a certain level of insurance literacy, they may still prefer impartial and professional insurance information to boost their confidence, and may be in need of an easy and convenient tool to regularly assess their imminent protection needs. For example, they can refer to the IA's thematic sitelet, as well as the simple version of the assessment tool, which considers the current mortality protection gap.

**Retirees & Pre-Retirees:** Survey findings show that some members of this group are not sure about the information they need to choose the most suitable insurance policy. Specifically, they can refer to information about annuities and medical insurance in the IA's thematic sitelet, as well as information from other public bodies advocating retirement solutions.

**Figure 16 Demonstration of the Insurance Authority's Thematic Sitelet (Product page)**



## Concerted efforts by the industry

Apart from online information, insurance intermediaries are another major source of information for different life stages. It should also be noted that some in the more mature generations may not prefer websites as their main information channel. Therefore, insurance companies and intermediaries can play an important role in public education. In recent years, it has been observed that the industry increasingly approaches and engages with the uninsured through life stage themes. There will be synergy in public insurance education as different information sources synchronise with each other.

## Self-testing

### ARE YOU SUFFICIENTLY PROTECTED? ASK YOURSELF THESE QUESTIONS



1. Do you know what insurance is used for?
2. Young and healthy people (like you) may also need insurance. Why?
3. Do you know your parents may need your support sooner or later? What should you do?



1. You have started to support your family. Can your family manage if unfortunate events happen to you?
2. You have an ambitious plan (e.g. buying a flat, starting a family) for the future. Will you and your family need more protection later?
3. Should you leave these problems for later, when the risks are larger? Why or why not?





1. You are bearing more family responsibility. Is the protection you obtained in early years enough for your family?
2. Your physical condition may have undergone a significant change from when you were young. Your lifestyle may also have changed. Do you need more protection?
3. You have different risks to address. How do you properly assess your protection needs?



1. Do you want to enjoy your retirement through self-support, or will you have to rely on the support of your children?
2. Are you afraid of rising living and medical expenses in the future? Do you have enough resources to cope with them? What are the tools that can help you mitigate the risks?

**Don't have a clear answer? Check out the Insurance Authority's thematic sitelet at**

**<https://education.ia.org.hk/en/>**

## APPENDIX: OPERATIONAL DEFINITION OF THE FIVE LIFE STAGES

The five life stages are not intended to cover the entire population<sup>9</sup>. Rather, they serve to illustrate five typical profiles of people with different insurance needs. These are defined as follows.

- *Youth* — This group comprises students who are financially dependent on their parent(s) or guardian(s). They are between 18 and 24 years old, single and are currently studying, with limited or no experience in full-time employment;
- *Career Starters* — Refers to young professionals who are beginning to gain financial independence. They are no more than 30 years old, single and currently in employment. Individuals with or without dependents are both categorised under Career Starters, as long as these criteria are met;
- *Mature Working Adults* — Comprises working individuals who have reached financial independence. They are between 30 and 54 years old, single and employed. Individuals with or without dependents are both categorised under Mature Working Adults, as long as these criteria are met;
- *Married Persons* — Refers to individuals who are married, between 18 and 54 years old, and with dependents to support. It should be noted that data relating to married people without any dependents has been excluded from this thematic analysis; and
- *Pre-Retirees & Retirees* — Comprises individuals who are soon to be or already retired. They are between 55 and 79 years old. Regardless of their current employment status (i.e. employed or retired), marital status and the availability of dependents, individuals are categorised under Pre-Retirees & Retirees as long as these criteria are met. Individuals who meet the relevant criteria but are below the age of 55 are excluded from this thematic analysis.

<sup>9</sup> For the purpose of the survey, these five life stages are tightly defined. Coverage of different life stages may be broader in the thematic sitelet than this survey. The definitions used in the survey have been carefully crafted to ensure a representative picture of a typical person at a specific life stage.



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