
Life insurance and high
net worth Canadians

An eye-opening opportunity

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Ipsos is Canada's market intelligence leader and the country's leading provider of public opinion research. Ipsos' Canadian marketing research and public affairs practices are staffed with seasoned research consultants with extensive industry-specific backgrounds. Ipsos is an Ipsos company, a leading global survey-based market research group. Ipsos has carefully reviewed the report "Life insurance and high net worth Canadians: An eye opening opportunity" and confirms that its conclusions accurately reflect the findings in the 2016 study of high net worth Canadians conducted on behalf of Sun Life.

Life insurance and high net worth Canadians: An eye-opening opportunity

The unique needs and expectations that high net worth (HNW) Canadians have of the financial services industry are well understood, and extend across both the wealth and protection product categories. But while wealth managers have fine-tuned their efforts to meet affluent clients' requirements, three in 10 wealthy Canadians own no life insurance (a result consistent with national ownership rates¹). Given the alignment between life insurance product attributes and the unique financial planning needs of HNW Canadians, one would expect life insurance ownership to be higher among the affluent.

Despite these overall market results, we are seeing significant life insurance policies bought as part of HNW individuals' personal estate and business plans. Even as large numbers of wealthy Canadians continue to believe they can afford to self-insure, educational efforts that extol the unique benefits of life insurance products to HNW individuals are paying off.

To better understand the client profile, Sun Life Financial asked Ipsos to conduct a study of HNW Canadians² (with a minimum \$1 million in investable assets, many of whom are business owners). The research was completed in January 2016.

One-third (33 per cent) of HNW Canadians own no personal life insurance (11 per cent of that sample do own group life). Among those who own no personal life insurance, most say they have enough money to cover their family's financial needs without the benefit of life insurance. Smaller numbers don't consider it a good investment, or say simply that they "don't believe in life insurance." Still others mistrust the life insurance industry.

Remarkably, just five per cent of those who don't own life insurance are either very or somewhat likely to buy it in the future. Given all this, should financial advisors make discussing life insurance with HNW Canadians a priority?

In fact, there are solid reasons to do exactly that. Generally speaking, wealthy Canadians are mistaken in their negative views about life insurance. To the extent that advisors can encourage clients to shift their thinking – from questioning the need for life insurance to understanding its benefits from a holistic financial planning perspective – there are opportunities to expand relationships with HNW clients by reintroducing them to a product category that adds significant value.

¹ According to LIMRA's 2013 Canadian Life Insurance Ownership Study, 68 per cent of Canadian households have life insurance.

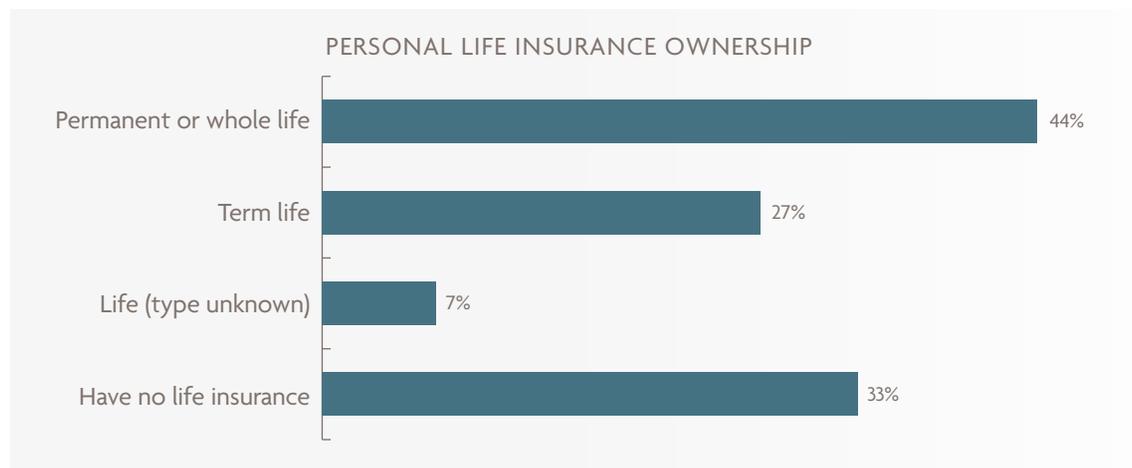
² All data findings subsequent to this footnote are sourced from Sun Life Financial's study of high net worth Canadians, conducted by Ipsos.

A financial literacy gap revealed

Sixty-three per cent of HNW Canadians own one or more types of life insurance. Among that group, fewer than half (44 per cent) hold a permanent or whole life policy. About one-quarter (27 per cent) own term life.

Looking forward, just three per cent of those who don't own life insurance say they are very likely to purchase it in the next

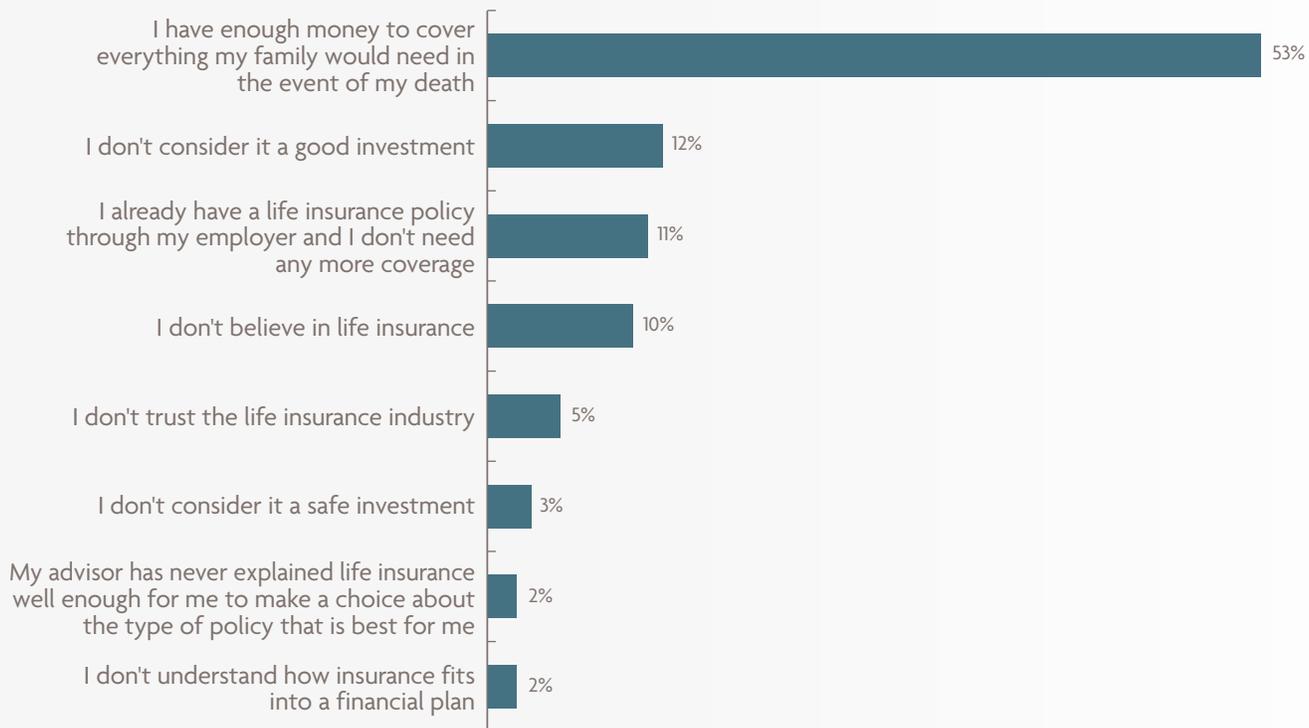
year and two per cent say somewhat likely. Sixteen per cent describe themselves as not very likely and 75 per cent are not at all likely.



What's behind this negative sentiment? Primarily, it's a lack of understanding about the potential benefits of life insurance for HNW individuals. Among those who don't own or don't plan to buy life insurance, more than half (53 per cent) say the most important reason is "I have enough money

to cover everything my family would need in the event of my death." Twelve per cent "don't consider it a good investment," 10 per cent "don't believe in life insurance" and five per cent say they "don't trust the life insurance industry." Another 11 per cent already own group life.

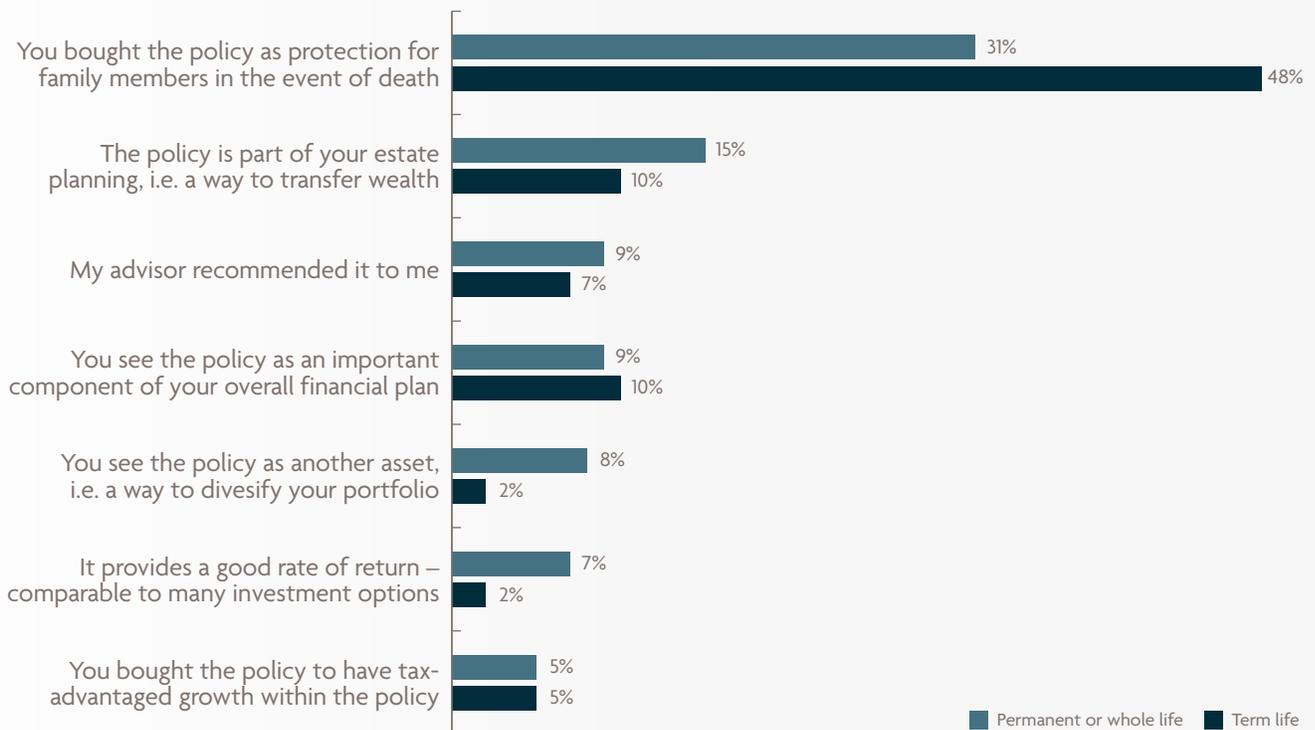
MOST IMPORTANT REASON FOR NOT PURCHASING LIFE INSURANCE



There is an educational opportunity for financial advisors here. In addition to the income-protection benefits of term insurance, there are solid arguments to be made in favour of treating life insurance as a kind of alternative asset class. Permanent participating life policies – that can remain in place for the rest of the insured person’s life – have the potential to deliver better rates of return relative to traditional conservative vehicles like guaranteed investment certificates or government bonds. They provide HNW Canadians with a tax-free death benefit, the policy’s investment income is tax sheltered, and they help clients avoid estate settlement costs such as probate fees.

Indeed, among those who have purchased permanent or whole life insurance, 31 per cent say the most important reason for doing so was “protection for family members in the event of death.” Another 15 per cent say the insurance is part of their “estate planning, i.e. a way to transfer wealth.” Nine per cent recognize that the policy is “an important component” of their financial plan. And eight per cent “see the policy as another asset, i.e. a way to diversify [their] portfolio.”

REASONS FOR PURCHASING LIFE INSURANCE



This is not to suggest however that all wealthy Canadians have a solid understanding of this important product category. HNW individuals – who often believe they know best when it comes to household finances – tend not to see themselves as well-informed regarding life insurance.

Only about one-quarter describe themselves as “expert” (five per cent) or “very knowledgeable” (19 per cent). About half (48 per cent) say they are “somewhat knowledgeable.” And a remarkable 27 per cent say they are “novice or beginner.”

When presented with a series of product attributes, few survey respondents correctly identified which applied to term or permanent insurance. For example, just 49 per cent recognize that permanent insurance includes an investment component. Forty-seven per cent said the same (or didn’t know) about term insurance.

LIFE INSURANCE PERCEPTIONS

Percentages of high net worth Canadians who recognize that various product attributes apply to term and/or permanent insurance.

LIFE INSURANCE ATTRIBUTES	TERM INSURANCE	PERMANENT INSURANCE	NEITHER	DON'T KNOW
Includes an investment component	13%	49%	10%	34%
Has a cash value that can grow tax free	11%	48%	9%	36%
Has a cash value that can be accessed before you die	14%	49%	8%	32%
Provides protection for your entire lifetime	12%	64%	8%	22%
Provides protection for a specific period of time	61%	15%	6%	25%
Provides benefits when you die	57%	61%	5%	21%
Provides a tax-free death benefit	41%	55%	8%	32%
Has no cash value	45%	10%	13%	33%

Primary advisor relationships provide a clue

This disconnect – between the needs of HNW Canadians and their understanding of life insurance product attributes – highlights the tremendous potential for insurance advisors who can explain the real, demonstrable benefits of life insurance.

To realize that potential however, it's important to understand who HNW Canadians are doing business with. There is a propensity among the affluent to establish advisor relationships with investment advisors and accountants, many of whom do not sell insurance. (Advisors who do not have a life agent's license cannot give advice about life insurance products.)

One-third (32 per cent) of HNW Canadians work with an investment advisor on a regular basis. Among that one-third, 77 per cent say their investment advisor is formally involved in their financial planning. In fact, 30 per cent say their investment advisor has the "most influence" on their plan.

One quarter (24 per cent) work with an accountant regularly. Among those, 41 per cent involve their accountant in their financial planning formally and five per cent consider that accountant to be their primary advisor.

On the flip side, 54 per cent of HNW Canadians work on a regular basis with a professional who sells and provides advice about life insurance: a financial advisor, planner or actual insurance specialist. Among those who work with a financial advisor, 80 per cent say their advisor is formally involved in their financial planning and 37 per cent say their advisor has the most influence on their financial planning. Among those who work with a financial planner, the results are

90 per cent and 23 per cent respectively. And among those who work with an insurance specialist, it's 38 per cent and five per cent.

This doesn't mean HNW Canadians whose primary advisor doesn't sell life insurance don't have access to that insurance. We know that insurance specialists are brought into discussions regularly. In fact, 59 per cent of those surveyed who own life insurance say they did not purchase it through their primary advisor.

What's key is an advisor's ability to gain access to these clients – in many cases with the cooperation of whomever owns the primary relationship – and then to

successfully educate the client about the benefits of life insurance.

These HNW individuals have needs that align closely with life insurance product attributes. Among those who have an advisor, planner or insurance specialist formally involved in their financial planning, 84 per cent say they'd like their advisor to "provide tax planning advice on how to minimize taxes." Seventy-two per cent want "estate and legacy planning advice."

When asked to rate the importance of a variety of financial planning goals, significant percentages of these HNW Canadians identify the following as of "critical importance:"

FINANCIAL PLANNING GOAL	PERCENTAGE OF HNW CANADIANS WHO CONSIDER THIS CRITICALLY IMPORTANT	CAN LIFE INSURANCE HELP THEM ACHIEVE THIS GOAL?
Protecting current wealth	66%	✓
Generating retirement income	57%	✓
Tax optimization	44%	✓
Protection against risks (e.g. premature death and disability)	29%	✓
Leaving an inheritance for family members	24%	✓

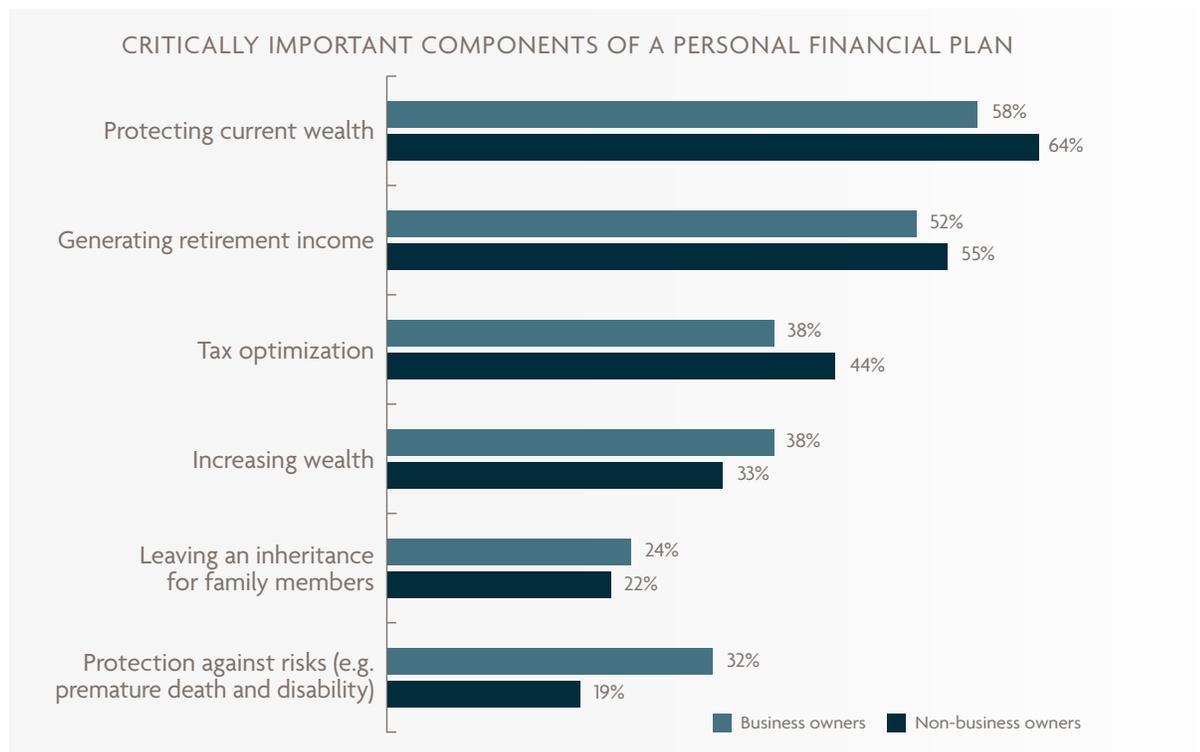
Business owners are more likely to purchase life insurance

Study findings suggest that HNW Canadians who own businesses are more likely to purchase life insurance, in comparison to those who don't own businesses.

Half of business owners (50 per cent) own a permanent or whole life policy currently, whereas 41 per cent of non-business owners say the same.

Ten per cent of business owners who don't own life insurance say they are either very likely (eight per cent) or somewhat likely (two per cent) to purchase life insurance in the next 12 months. Just three per cent – one per cent very likely and two per cent somewhat likely – of non-business owners say the same.

Furthermore, when asked about which elements of a personal financial plan are considered critically important, business owners are more likely to point to “protection against risks (e.g. premature death and disability).” Thirty-two per cent of business owners say that is of “critical importance,” whereas just 19 per cent of non-business owners say the same. This stands to reason of course, given the impact a HNW individual's death would have on their business. On all other measures, the two groups' answers are closely aligned.



Life insurance has more to offer

It is counterintuitive that life insurance – such a staple of so many Canadians' financial planning – is an underused, misunderstood product category among so many of the country's most affluent Canadians.

The good news is that these folks value professional advice, and recognize that they can benefit from a variety of life insurance product benefits (even if they haven't connected their needs with what life insurance has to offer).

Advisors able to establish HNW client relationships, and to connect their financial planning goals with insurance product attributes, are well positioned to increase their life insurance sales.

TIPS FOR ADVISORS

- Don't assume because your clients are sophisticated that they've made an informed decision about insurance. They may not know what they don't know.
- Show HNW clients that they're not alone, that clients who are just like them don't understand insurance.
- Fill the knowledge gap.
- Make sure clients have a formal written financial plan.
- Bring all centres of influence to the table.

BIOGRAPHY



KEVIN PRESS

Kevin Press is an award-winning marketer and journalist. His current role is Assistant Vice-President, Market Insights at Sun Life Financial. He leads a number of thought leadership studies including the Retirement Now Report, Canadian Health Index and Investor Sentiment Report.

Before joining Sun Life Financial, Kevin worked as a journalist for a number of business magazines, including Benefits Canada, Advisor's Edge and Benefits and Pensions Monitor. He served as Editor of Benefits Canada from 1999 to 2003.

These days, he writes about the economy and personal finance for sunlife.ca. His e-book – Understanding Unretirement – was released in 2014.

