

COMPLAINT NUMBER	17/290
COMPLAINANT	B Coulthard
ADVERTISER	Compass Life Limited
ADVERTISEMENT	Compass Life Limited, Radio
DATE OF MEETING	24 September 2017
OUTCOME	Not Upheld

SUMMARY

The radio advertisement for Compass Life Insurance said: “Did you know most life insurance policies don’t pay out because for most people premiums increase becoming too expensive as you get older. Compass Life can provide premiums that don’t increase with age so you’ll pay the same in years to come as what you’re paying now giving you cover when you’re most likely to need it. If affordable premiums that don’t increase sounds good to you, you need to talk to Compass Life...”

The Complainant was concerned the advertisement was erroneous because it implied “life insurance premiums with any other insurer will increase to an extent that they will become unaffordable and also will not pay out when a claim is made” when there are many different reasons insurers deny claims.

The Advertiser said the “reasons for claim denial are not relevant, as the advert only asserts that most people find their premium ‘becoming too expensive’ and so their policy is not in force, not that a claim is denied.” The Advertiser also provided information to support their statement.

The Complaints Board said the advertisement was referencing that most life insurance policies were not paid out due to a lapse in premium payments because they were unaffordable, not denied. The Complaints Board was of the view the phrasing in the advertisement could have been clearer but the main message was that Compass Life offer policies that do not increase with age. The Complaints Board said the advertisement did not reach the threshold to mislead consumers, was not in breach of Principles 1 or 2 of the Code for Financial Advertising and had been prepared with a high standard of social responsibility to consumers and society.

The Complaints Board ruled the complaint was Not Upheld.

[No further action required]

Please note this headnote does not form part of the Decision.

COMPLAINTS BOARD DECISION

The Chair directed the Complaints Board to consider whether the advertisement with reference to Principle 1 and 2 of the Code for Financial Advertising.

This required the Complaints Board to consider whether the advertisement observed a high standard of social responsibility particularly as consumers often rely on such products and services for their financial security and whether it was likely to mislead, deceive or confuse consumers, abuse their trust, exploit their lack of knowledge or without justifiable reason, play on fear. This includes by implication, omission, ambiguity, exaggerated claim or hyperbole.

The Complaints Board ruled the complaint was Not Upheld.

Complaint from B Coulthard

The Complainant was concerned the advertisement was erroneous because it implied “life insurance premiums with any other insurer will increase to an extent that they will become unaffordable and also will not pay out when a claim is made” when there are many different reasons insurers deny claims.

Response from Compass Life Insurance

The Advertiser responded to the complaint and said, in part: “the advert is correct in stating that premiums increase, becoming too expensive as you get older...the advert does not say that ‘a claim will not be paid’, but most life insurance policies don’t pay out because they become too expensive (implying that the cover will not be in-force to allow a claim to be made). This is shown to be true by industry data. The Financial Services Council publishes annual reviews from all sources... while it is true that incomes rise (In the year to June 2015 they rose a healthy 4.3%, but in most recent years have increased at a lower rate), life insurance premiums continue to rise faster.”

The Advertiser said, in part: the “reasons for claim denial are not relevant, as the advert only asserts that most people find their premium ‘becoming too expensive’ and so their policy is not in force, not that a claim is denied.”

Complaints Board Discussion

The Complaints Board considered the likely consumer take-out of the advertisement and whether it was likely to mislead people.

The Complaints Board said the advertisement was referencing that people let their life insurance lapse because the premiums become unaffordable as they get older. It said the advertisement promoted Compass Life as an alternative as its premiums do not increase with age. The Complaints Board noted the advertisement said “most” life insurances policies don’t pay out to “most” people because the premiums become unaffordable with age and provided information to support that statement.

The Complaints Board noted the evidence provided from the 2013 Financial Services Council Annual Review referred to “lapses, surrenders, and cancellations” as the largest group of ‘Discontinuances’ in policies, as well as the example provided to demonstrate premiums increase with age. It noted the extrapolation that the unaffordability of premiums resulted in ‘most policies not paying out’ but said the main message of the advertisement was that Compass Life offered policies that do not increase with age.

While it accepted the Complainant’s point there are many reasons life insurance claims were denied, the Complaints Board said the advertisement was referencing that most were not paid out due to a lapse in premium payments. The Complaints Board was of the view the phrasing in the advertisement could have been clearer but it did not reach the threshold to mislead consumers. The Complaints Board ruled the advertisement was not in breach of Principles 1 or 2 of the Code for Financial Advertising and had been prepared with a high standard of social responsibility to consumers and society.

Accordingly, the Complaints Board ruled to Not Uphold the complaint.

DESCRIPTION OF ADVERTISEMENT

The radio advertisement for Compass Life Insurance said, in part:

“Did you know most life insurance policies don’t pay out because for most people premiums increase becoming too expensive as you get older. Compass Life can provide premiums that don’t increase with age so you’ll pay the same in years to come as what you’re paying now giving you cover when you’re most likely to need it. If affordable premiums that don’t increase sounds good to you, you need to talk to Compass Life...”

COMPLAINT FROM B COULTHARD

This advertisement states that life insurance premiums with any other insurer will increase to an extent that they will become unaffordable and also will not pay out when a claim is made.

I believe that this is erroneous, whilst premiums do increase over time, so too do income levels and all insurers are guilty of denying claims for many different reasons.

CODE FOR FINANCIAL ADVERTISING

Principle 1: Financial advertisements should observe a high standard of social responsibility particularly as consumers often rely on such products and services for their financial security.

Principle 2: Advertisements should strictly observe the basic tenets of truth and clarity. Advertisements should not or should not be likely to mislead, deceive or confuse consumers, abuse their trust, exploit their lack of knowledge or without justifiable reason, play on fear. This includes by implication, omission, ambiguity, exaggerated claim or hyperbole.

RESPONSE FROM ADVERTISER, - Chatswood Consulting limited on behalf of Compass Life Limited

The first complaint has four main points

- 1) This advertisement states that life insurance premiums with any other insurer will increase to an extent that they will become unaffordable...
- 2) ... and also will not pay out when a claim is made.
- 3) I believe that this is erroneous, whilst premiums do increase over time so too do income levels...
- 4) ... and all insurers are guilty of denying claims for various reasons.

On point 1, the advert is correct in stating that premiums increase, becoming too expensive as you get older. This is an acknowledged problem for the life insurance industry. Below is a table of premium costs for \$500,000 life cover at a number of ages, from a typical insurer. We chose Sovereign, because they are the largest insurer, but you will find a similar result with any insurers offering rate-for-age or yearly-renewable term that makes up most of the life insurance sold in New Zealand.

Age	30	40	50	60	70
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Cost (monthly)	\$35.32	\$42.89	\$104.13	\$336.84	\$1,273.97
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Calculated for a male, non-smoker, \$500,000 life cover, from Chatswood Consulting Limited industry life premium database and www.quotemonster.co.nz provided by Quality Product Research Limited. These are very expensive compared to median incomes (see point three below) and result in lapsed policies (see next point).

On point two, the advert does not say that 'a claim will not be paid', but most life insurance policies don't pay out because they become too expensive (implying that the cover will not be in-force to allow a claim to be made). This is shown to be true by industry data. The Financial Services Council publishes annual reviews (available at this link <http://fsc.org.nz/Research++Resources/Annual+Reviews.html>). The last public report was to June 2013, but quarterly statistics continue to be published to members (not the public) and they show the same trend continuing. You may also examine the prior ten years of public reports which show the same trend.

These statistics clearly show the annual premium of term life insurance (the largest category, hence a valid measure of "most"). They then show the portion of annual premium that terminates, divided into two categories, which I have reproduced here (the table follows for your reference):

1) Claims and expiries	- \$6,691,000
2) Lapses, surrenders, and cancellations	- \$122,109,000

On point three, the median weekly income from all sources (from this reference: <file:///C:/Users/Russell/Downloads/NZIncomeSurveyJun15qtrHOTP.pdf>) was \$621 per week. While it is true that incomes rise (In the year to June 2015 they rose a healthy 4.3%, but in most recent years have increased at a lower rate), life insurance premiums continue to rise faster. The increases annually between age 45 and 55 are typically 12% or more, as you can see from the sharply rising table above. Furthermore, incomes tend to fall when a person stops work and enters retirement, and so most rate-for-age life insurance is lapsed before retirement, and well before death.

On point four, the reasons for claim denial are not relevant, as the advert only asserts that most people find their premium 'becoming too expensive' and so their policy is not in force, not that a claim is denied.

...

Traditional & Risk Business – Product Summary 4 Quarters ending 30 June 2013

Product	Annual Premiums \$000							Annual Premium Contracts		Single Premium Contracts		
	Inforce @ start	Contractual increases plus adjustments	Revisions	New Business	Transfers	Discontinuances		Benefit Count		New Contracts		
						Claims & expiries	Lapses, surrenders, & cancellations	Inforce @ end	New	Inforce @ end	Premiums \$000	Benefit count
	(a)	(b)	f	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
Traditional												
Whole Life & Endowment	110805	519	-31	363	0	5323	3290	103045	204	310985	22	0
2012	116577	562	626	414	0	4476	2898	110805	307	324514	15	0
Unbundled	38304	1010	-836	23	0	981	3081	34436	0	19397	0	0
2012	42626	1366	-64	23	0	1093	4554	38304	8	21952	0	0
Risk												
Term	933329	79873	1134	97688	-3023	6691	122109	980195	177215	1529611	2472	19282
2012	854395	78481	-197	90808	-700	5191	97436	920160	165122	1332100	2219	18779
Guaranteed Acceptance	52789	790	56	10717	2	1211	5226	57915	19498	170497	0	0
2012	47672	103	1062	10886	3	1214	5718	52794	21241	154940	0	0
Trauma	267874	24052	-177	41623	2588	1435	40090	294431	106646	644279	0	0
2012	244291	20691	-11	33352	-209	1558	36403	260153	93066	523730	0	0
Replacement Income	268646	19453	-1771	43932	442	1513	39543	289639	106518	649440	0	0
2012	252135	14602	1760	30749	913	1173	35757	263229	79331	482039	0	0
Lump Sum Disablement	53876	4806	398	8191	-8	539	8496	58226	51886	265934	0	0
2012	48595	7907	-1400	6174	-7	660	7617	52992	39007	234943	0	0
Accidental Death	14450	316	-55	1846	0	277	1609	14670	10658	144924	0	0
2012	14296	392	3	1353	0	260	1333	14451	8730	146376	0	0
Credit Insurance	59790	1155	0	16793	0	27	16509	61202	79725	325289	24032	31970
2012	58134	-30	237	16070	0	3	14615	59793	72559	348721	22829	32694

RESPONSE FROM MEDIA, NZME

We are writing in response to the above complaint regarding Compass Life advertising. The general wording of the radio advertisements was originally prepared by NZME in consultation with the client in 2012, and the ads have, with only minor changes to call-to-action info, been running ever since. NZME was satisfied that the information given by Compass Life was truthful and accurate, and did not see reason to seek further substantiation.

Upon receiving notice of the complaints made against these ads, we did ask for more evidence. This was quickly provided in some detail both by Compass Life, and by Chatswood Consulting, in their responses to the complaint.

At this stage we feel there is little of value we could add to their responses and will await the ASCB Decision on the case.