NEWSLETTER

May 2017

Introduction

It is mid-Autumn and we are pleased to bring you our May Newsletter. In this edition we examine an unusual event – a fall in house prices in Sydney. Many people think this could not have come soon enough. We also look at the share market for April and reproduce a couple of our more popular articles on risk insurances.

Early May is actually a quiet time in financial planning – as the second Tuesday in May is the day when the Federal Government brings down it's annual Budget. This usually results in a substantial amount of activity as people organise themselves, especially before the next 30 June. So, please keep an eye on our website over the coming weeks as we show you how to make best use of any changes that may impact upon you.

Did You Know… the month of May

May has always been an important month in Australian history. Arguably, Australia got it's name in May 1606 when a Spanish explorer found what he thought was a great southern land. He named it *La Austrialia del Esperitu Santo*, after the Spanish Queen of the time, Margaret of Austria. Not only was it silly for the Spanish Queen to be called Margaret of Austria – the explorer had actually landed in Vanuatu, which is not exactly a continent. The first fleet sailed from England in May 1887, while Parlimanent convened for the first time in Canberra in May 1927 (it had been conducted in Melbourne since 1901). In May 1988, a new Parliament House opened in Canberra.

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MARKET UPDATE

Property Update

The property market did a most unusual thing in April – it went down in Sydney! Media reports late last week revealed that one researcher, CoreLogic, had observed a 0.1% decrease in Sydney house prices in the first 27 days of April. The other ridiculously hot Australian market – Melbourne – still rose by 0.5%. These figures are for one month, so a rise of half a percent in one month is not exactly a massive cooling, but the drop in Sydney is significant.

Other major cities had mixed results. Perth fell by another 1%, as prices continue to adjust from the highs of the mining boom. Canberra fell too, while Hobart, Adelaide and Brisbane all rose. The size of the Sydney market, however, meant that the overall national trend was down.

The change in property prices in the major markets probably reflects two things. The first is logic: prices cannot keep going up forever. After all, the only thing that causes prices to rise is demand from buyers. The more people who want to buy property, the higher prices go. As prices rise, fewer buyers can afford to buy, which cools demand – and takes the upward momentum out of prices.

This only holds, of course, if the number of homes for sale (supply) stays the same. If demand and supply both fall, then prices may not change. If demand falls *and* supply increases, then prices fall even faster. This is what happens in an 'asset bubble': prices rise while more people are buying and few people are selling. The bubble then 'bursts' when significant numbers of people want to sell. To attract buyers, a seller must accept a lower price – and if this happens en masse then overall prices can fall quickly.

There is no indication of an increase in supply in the housing market, so it looks like the change in the price trend is due solely to fewer people wanting to buy. The second reason for dampened demand is perhaps the increase in certain interest rates being charged by the major banks. The increases tended to be on investor loans, such that the cost of borrowing to buy an investment property rose. This may well have reduced investor demand.

You have to hand it to the banks, here. The interest rate rise on investor loans happened without the RBA increasing its target interest rate. Normally, banks only change their property loan rates when the RBA changes its target. This is done for marketing reasons, mostly: home loans are such a political football that a bank that raises them without a 'lead' from the RBA faces a public relations crisis. "Those greedy banks!"

But not this time. This is because much of the media commentary has become anti-investor in recent months. People in the hot Sydney and Melbourne markets feel that it is investor demand that is pushing prices skyward, and they may well be right. So those investors get little sympathy when asked to pay higher interest rates to their lender – even though this is really just a chance for the banks to create greater profits for themselves.

This is another reason why it will be hard to go broke investing in Australian banks (provided you do prudent things like buy over time to manage timing risk). They are simply very good at making money in the Australian economy.

For what it is worth, most people are actually of a mind that the Sydney and Melbourne markets have become a little silly. Most people are hoping for what is known as a 'soft landing.' This is where the rate of growth in prices slows, maybe even becoming slightly negative, but things do not get so bad that people feel forced to sell their home: which is what happens if a bubble bursts.

The econocrats in positions of influence in the Australian economy have shown themselves to be pretty good at managing soft landings in recent times. Here's hoping for another one.

Share Market Update

April was also a pretty quiet month in the share market. The ASX 200 started the month at 5,864 points and finished it at a little over 5,900 – about a 0.6% increase. Nothing major in that. Here is how it all looked on Google (the 0.04% refers to the change on the last day of the month):

We have said it before and you may be starting to find it boring when we say it again: this is actually a good monthly result in a share market. The long-term trend for the Australian economy – and hence shares in companies that participate in the Australian economy, such as the banks we discussed above – is a good one. This means that April was right 'on trend' – a gently positive month where your share investments (including investments you might hold in things like your super fund) ended the month worth a bit more than they started the month.

People who do well investing in shares treat the share market more like a library than a rollercoaster park. They like the slow and steady.

So shhhh.

Insurance that you never knew you had

A few years ago, a fellow adviser with good links to health providers was referred a client in his mid-thirties who had experienced a brain tumour and corrective surgery. The client had gone to see a psychologist, and in the course of his counselling, it was revealed that the client was in dire financial straits. He could not hold down a job (the treatment had left him with what was later diagnosed as an acquired brain injury, or ABI), and his new wife was pregnant with twins. His ABI meant that he found it difficult to organise help for himself, so his psychologist agreed to accompany him to a meeting with a financial adviser.

As it turned out, prior to the tumour this client had worked in various labouring roles. These roles necessitated super guarantee contributions into several funds. All of these funds had default level TPD insurance, and to cut a long story short, this client was entitled to a total of $125,000 in insurance payments.

Can you imagine the relief for him and his young wife when they realised that cheques for that amount were on their way?

The client was referred to his bulk billing psychologist by his bulk billing GP. What a fortuitous referral that turned out to be! And well-played to the psychologist for his financial savvy. The client thought he was getting help with his depression. He was, too: $125,000 was the best anti-depressant he ever received.

The same adviser took great pleasure in helping another client who was referred by a medical doctor. This client has a son who had died in a car accident. There was nothing the adviser could do to take that pain away. But he could assist his client to realise that his son had a default life insurance policy worth $200,000. The payment went to his next of kin (in this case, his dad), who put it aside for later use. And the use to which he put the money? Buying the safest car he could find when each of his remaining children turned 18. Some small comfort out of a horrible situation.

These were cases where the client had default cover within a super fund. We also listened intently recently as a fellow adviser told us about a client of his for whom he fought a five year battle to have their claim for TPD accepted. In this case, the client ended up with a seven-figure payment. Which is exactly as it should be – after all, she had paid her premiums for many years.

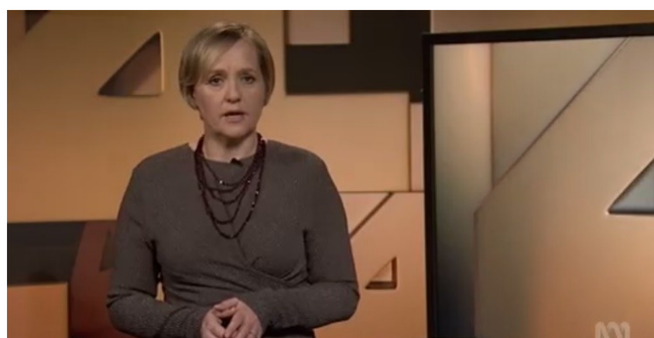
This is one of the best parts of a financial adviser's job: helping people make a claim and seeing their relief when the insurance that they have paid for comes to fruition. So, if you or someone you know may have a reason to make a claim on their life insurance policy, why not make contact with us and let us see if we can help them?

(First published on our website April 11 2017)

ASIC's review of life insurers and their payment of claims

This time last year the media was awash with reports about life insurers who were rejecting too many insurance claims. Reports such as this one (by the excellent Adele Ferguson of Fairfax) led to an inquiry from the regulator, ASIC.

If you have time, you might even check out this episode of Four Corners, presented by the same journalist:

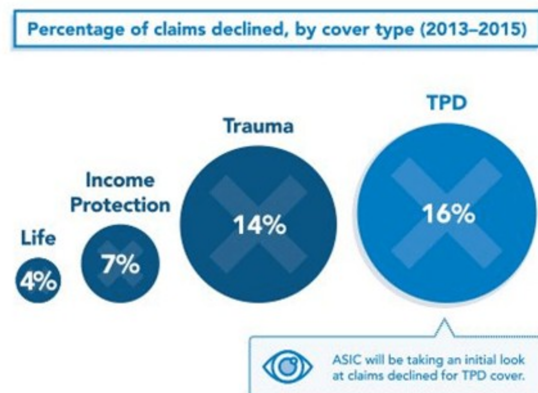


http://www.abc.net.au/4corners/stories/2016/03/07/4417757.htm

ASIC's inquiry examined the performance of all the major insurers when it came to paying claims. And the inquiry revealed some disturbing practices.

10% of all claims made for life insurances are rejected by the insurer. This might sound like a low number – but, remember, we are talking here about life insurance, where you would expect that whether or not an event has happened would be pretty easy to establish. Death cover, for example, which pays a claim if the insured person dies, should not lead to too many situations where a claim is knocked back.

And the stats do bear that out. Of the various types of life insurance, death cover claims are the least rejected. Only 4% of death cover claims are knocked back (although this still seems high in many ways). You can see the relative rejection rates in this infographic, provided by ASIC:



On average, more total and permanent disablity (TPD) and trauma claims are declined than life and income protection claims

The highest level of rejection was for TPD claims. TPD stands for Total and Permanent Disability. As the name suggests, this is a policy that should pay a lump sum if the insured person becomes unable to work due to some permanent illness or injury. 16% of all claims were rejected – although there was huge variance amongst insurers. ASIC reported that one insurer (later revealed to be Westpac) rejected 37% of all TPD claims.

Trauma claims were next, with 14% rejected. One insurer here knocked back 25% of claims.

When a claim is rejected it can only mean one thing: someone thought they were covered by insurance and their insurer thought otherwise. So, how is it that so many people think they are insured for something when in fact they aren't?

There are a few reasons. One is that the policy holder does not know what the document actually says. The other is that the policy holder does know what the document says, but the way the insurer defines the words is different to the way others interpret them. That was the issue with the main case that *Adele Ferguson* wrote about, where pretty much everyone on the planet accepted that a client had had a heart attack – except the insurer, who used a different definition of heart attack.

So, in many ways, it can be a case of 'buyer beware' when it comes to life insurance.

But ASIC's inquiry did reveal some good news. One of the things that it revealed was that, where people used a financial adviser to arrange their life insurances, their claim was less likely to be rejected. This makes sense. After all, professional advisers deal with insurance and insurers all the time. We understand all the 'ins and outs' of insurance policies, and we use that information to ensure that our clients get the cover that best suits their needs and their budget. There are fewer nasty surprises when it comes to claim time.

So, if you or someone you love relies on your income – which means you need to be insured – please make sure that you talk to a properly registered, non-aligned financial adviser such as us. This will bring you peace of mind that if you ever need to make a claim, the insurer will keep up their end of your deal.

(First published on our website April 25 2017)

The Legal Stuff

General Advice and Tax Warning

The above suggestions may not be suitable to you. They contain general advice which does not take into consideration any of your personal circumstances. All strategies and information provided on this website are general advice only.

Please arrange an appointment to seek personal financial and/or taxation advice prior to acting on anything you see on this website.

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