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Edition 4, 2020

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soundsteps
PETER HAMMON AND ASSOCIATES

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We hope you enjoy our latest edition of Money Matters.

Please contact our office if you would like to discuss anything in this edition.

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COVID-19 underlines the need for life insurers to play stronger role in mental health rehabilitation

The stress and isolation of coronavirus-related lockdowns is exacerbating a mental health crisis. Can Australia's life insurance system cope with the strain and provide a better solution?

Mental health issues are taking a rising toll on Australians' ability to work – and the situation is only worsening as the world struggles to control the coronavirus pandemic.

"It's likely we'll see an increase in mental health related claims," Senator Jane Hume, the Assistant Minister for Superannuation, Financial Services and Financial Technology, recently told the Financial Services Council (**FSC**) Life Insurance Summit.

The number of mental health claims had already doubled over the five years to 2018, according to a recent study by KPMG and the Financial Services Council[1].

Disability income claims related to mental health issues now account for 11% of all claims, ranking ahead of cancer (10%) and only behind accidents (38%) and musculoskeletal (18%) issues.

While Australia has battled to contain a second coronavirus outbreak in Victoria, it's possible that the economic and mental health impact will eventually outweigh COVID-19's considerable health risks.

"Higher levels of unemployment will likely have impacts on total permanent disability (**TPD**) and income protection pricing and the 'return to work' process," Senator Hume said. "These things are likely to have flow on effects to the ever-present discussions about sustainability and affordability."

Mental health funding under pressure

COVID-19 has added further pressure to society's mental health challenges and the Federal Government has responded by increasing funding to provide additional resources in this area. It recently provided an extra $31.9 million to create 15 mental health clinics across Victoria, where a second round of stay-home orders added to already high levels of psychological distress.

The government already spends about $5.2 billion a year on mental health services, however critics have warned that it will not be enough.

Life insurers also play a key support role through disability income insurance, although rising claims have put the industry under pressure.

The structure of products will need to change to cope with this strain, while having to simultaneously maintain the valuable safety net that Australians rely on. The industry reported a total net loss after tax of $179 million for the March to June 2020 quarter on individual income protection products (**IP**).

The prudential regulator has already prompted industry wide changes, such as the end of agreed and guaranteed value disability policies, which pay a set income regardless of actual earnings at the time of the claim.

Senator Hume and others have flagged another possibility: insurers could become more involved in mental health rehabilitation.

How life insurers can help meet the mental health challenge

Life insurers are not currently permitted to fund mental health services for their consumers. Some organisations have raised concerns that clinicians, funded by life insurers, may be pressured to inappropriately recommend that a patient returns to work.

However, a Productivity Commission draft report into mental health[2], released in October 2019, suggested that regulation and the ethical convictions of clinicians should be able to manage such potential conflicts.

"With these issues managed, the Commission sees a strong case for permitting life insurers to fund mental health treatments on a discretionary basis," the draft report found.

The Commission also recommended relaxing current restrictions on insurers that allow them to provide limited preventative care, which could lower the rate of hospitalisations for mental health issues.

If the recommendations are taken up by government, life insurers may play a stronger role in not just protecting Australians from disability, but in helping them return to work.

The payoff could be substantial, particularly with COVID-19 set to be part of everyday life for the foreseeable future.

Are you concerned about your health or life insurance? Your adviser can help you. Call our office today.

1. Joint study reveals large rise in life insurance claims costs. (2020, June 22). KPMG. Retrieved from https://home.kpmg/au/en/home/media/press-releases/2020/06/joint-study-reveals-large-rise-life-insurance-claims-costs-22-june-2020.html
2. Commission, C. (2019, October 31). Mental Health - Productivity Commission Draft Report. Retrieved October 2020 from https://www.pc.gov.au/inquiries/completed/mental-health/draft

Why Buy Now, Pay Later services could replace credit cards

Younger Australians are flocking to Buy Now, Pay Later services but they still present risks for the unwary.

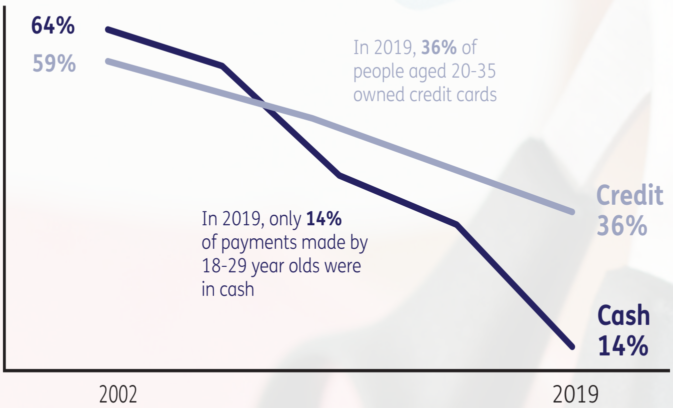
It's no surprise that the popularity of Buy Now, Pay Later (**BNPL**) services has boomed in recent years given how simple they are to use: download the smartphone App, punch in some basic details, and start spending.

The service, which is connected to a large range of retail stores, generates a random barcode which the cashier scans. It has shown to be highly favoured by younger Australians who often don't qualify for a credit card and remain wary of debt (BNPL services are usually connected to a debit card).

BNPL services can be used just as easily online, which is driving even more growth in the wake of the COVID-19 pandemic.

"While remaining cautious in our ongoing response, it is clear that Afterpay's predominantly e-commerce and budgeting-focused service has been a net beneficiary of the significant shift to online spending and the shift away from traditional forms of credit," Afterpay recently said in its 2019-20 annual result announcement.

Young people are turning away from credit cards and cash



Source: HILDA, RBA data, Afterpay AFR Retail Summit

The skyrocketing share prices of platforms like Afterpay, which doubled in value this year, is a clear witness to the demand and hype.

But the simplicity can come with a sting in the tail. Credit cards charge consumers interest on purchases but BNPL schemes charge late fees if repayments aren't made on time, which can quickly add up.

"One in six users had either become overdrawn, delayed bill payments or borrowed additional money because of a buy now pay later arrangement," according to an ASIC review of the sector.

One reason is that BNPL schemes encourage greater spending, which is a key reason retailers offer the service. Afterpay charges major merchants such as David Jones, Harvey Norman and Target 3-7% on each BNPL transaction.

The bottom line for consumers is that BNPL services provide convenient credit in an instant. However, they can be a double-edged sword that could deepen the financial despair for those who don't read the fine print.

BNPL falls outside of consumer protection regulations

BNPL services share many of the same characteristics of credit but don't fall under the National Consumer Credit Protection Act because they don't charge interest on purchases.

The act, which is overseen by ASIC, regulates credit issuers to ensure money is not loaned to people who are unlikely to have the ability to repay the debt.

It means BNPL services aren't required to perform a credit check, which is standard practice for organisations offering debt products such as credit cards. They also don't have to comply with consumer protections such as responsible lending, external dispute resolution membership, or help customers repay their debt.

A Senate inquiry into Financial Technology and Regulatory Technology in September surprisingly recommended against introducing more stringent credit checking regulations on BNPL schemes.

"Because innovation like 'buy now, pay later' often occurs on the fringes of regulation, it is inappropriate to force each innovation into a one-size-fits-all approach," the Committee said in its interim report.

The main repayment checking process undertaken by BNPL schemes is based on a consumer's repayment history with the service – if you fail to make a repayment you can't use the service until that amount is paid. Most services will also limit your maximum credit if repayments are consistently late.

How PropTech is revolutionising buying and selling houses

Australians love residential property, but buying and selling is far from easy. New technology promises a new way forward.

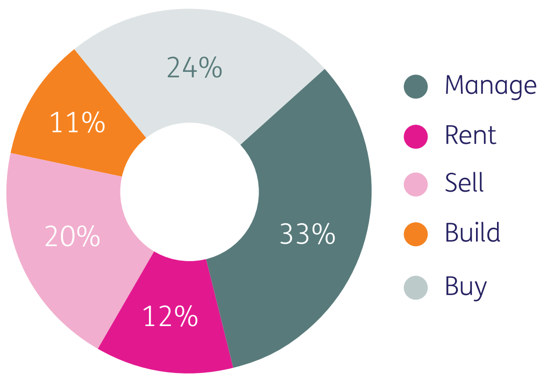
Buying a residential property is one of life's great achievements – yet filling in the mountains of associated paperwork is one of life's great frustrations.

The nature of properties – large physical assets that are infrequently bought and sold – means they have been left among the last areas of the economy to be digitised.

But a new wave of innovative property-focused technology is finally starting to make the process of buying and selling property simpler. There are now more than 260 so-called PropTech companies offering new and more efficient ways to build, buy, sell, rent and manage properties, according to research house unissu.

Almost two-thirds (61%) of Australian PropTech companies operate in the residential sector, with online platforms RealEstate and Domain.com.au dominating the market.

Residential PropTech companies in Australia by property lifestyle stage



Source: https://www.unissu.com/proptech-resources/proptech-in-australia

Electronic conveyancing now standard

Property buyers and seller are already benefiting from one key behind-the-scenes innovation that has been several years in the making: the shift to mandatory electronic conveyancing in late-2020 across NSW, VIC, WA, and SA.

The old paper-based system when transferring a property's legal title was time consuming and error prone. The Property Exchange Australia (**PEXA**), a national Electronic Lodgment Network (**ELN**) platform, first launched in 2013, was built by state governments and financial institutions to solve the issue. (The company is now owned by a consortium including Link Administration, Commonwealth Bank of Australia, and Morgan Stanley Infrastructure.)

PEXA has estimated the shift to e-conveyancing saves around 7.5 hours per transaction with people involved no longer required to be physically present when settling a transaction.

There are concerns about the dominant market position held by PEXA but new competitors are slowly beginning to emerge such as Sympli. Australian states and territories have also agreed on new legislation that will ensure greater interoperability between platforms from 2022.

Lockdowns prompt rising demand for virtual auctions

About 30% of residential properties are sold via auction – and about 15% nationally – before coronavirus-induced lockdowns closed the traditional market.

AuctionNow (an online auction platform) CEO Peter Matthews says virtual auctions previously attracted 1-2 registered bidders pre-COVID-19, but are now bringing in dozens of registered bidders and hundreds more watching.

"We had, in some instances, about 400 people watching an auction," he said during a recent Stone & Chalk PropTech panel. "It was almost like 'we're paying for Netflix' so they move from Netflix and flick over to AuctionNow, and it becomes a sport."

AuctionNow held about 10,000 virtual auctions through its platform over two years before COVID-19. That surged to 6,000 virtual auctions over six months, Matthews said in August.

As restrictions have been lifted, virtual auctions are sitting alongside traditional in-person auctions, making a more complete offer, while allowing agents to maintain a compliance trail. Those online transactions are also generating greater data that can potentially reveal lead indicators about the direction of the market.

"The technology has the ability to capture every bid, every bidder, how many times they bid, what bidding increment they used, what point of their bidding did they drop out, the standard deviation between winners and second and third – and all this information in real time," Openn Negotiation CEO Peter Gibbons said.

"I think there's a whole revolution in depth of market data that's going to be driven by these sorts of platforms."

Residential real estate forms the bedrock of wealth for many retirees. Speak to your adviser about the role it can play in your portfolio of assets.

Thanks for the memories: why 60-year-old 'Super Agers' can outperform 20-year-olds

New research suggests a healthier lifestyle may hold the key to better memory performance.

Growing older may bring wisdom and experience, but it's often accompanied by cognitive decline in our retirement years. However, a new study has found that isn't always the case – some people aged over 60 can consistently outperform 20-year-olds on memory recall tasks[1].

This inspiring bunch of lucky people who reliably perform better at cognitive tests than their decades-younger counterparts have been dubbed 'Super Agers' by researchers at the ARC Centre of Excellence in Population Ageing Research (**CEPAR**).

The study busts some misconceptions about ageing and shows that people in the 70s, 80s and beyond can sustain memory functions as well as the young folks.

Lead author of the study Janet Maccora said the findings challenge the assumptions and negative stereotypes about ageing.

"The existence of Super Agers is important because it demonstrates not only the possibility of high functioning in later life, but also that it is not just young people who have excellent memory," she said when announcing the results earlier this year.

Gender plays a role

Super Agers are becoming more prevalent in Australian society and there are a number of gender-related factors that determine the likelihood of becoming one.

Maccora and her colleagues applied gender-specific definitions of Super Agers to estimate how many there are in the population. They measured various demographic, physical, genetic, lifestyle, and psychosocial factors that were associated with being a Super Ager.

They found different gender factors were at play, with more women than men Super Agers.

"Education was the only factor associated with Super Ageing for both men and women, with more years of education increasing the odds of being a Super Ager," she said.

Men who showed depressive symptoms were less likely to be a Super Ager, but men who participated in social activities were more likely to score higher on memory tests.

A higher frequency of involvement in investigative activities, such as reading scientific books or magazines, solving maths or chess puzzles, or troubleshooting software packages on a computer, all increased the chances of being a female Super Ager.

The most surprising association – and perhaps the most welcome – was female Super Agers drank more standard drinks per week than their non-Super-Ageing counterparts.

However, the researchers warned that the association between alcohol consumption and later-life cognition should be interpreted cautiously.

"There are challenges in measuring the association between alcohol consumption and later-life cognition, such as the risk of bias inherent in self-reported measurements, the lack of information regarding alcohol type or the unmeasured influence of socioeconomic status.

The study also found many factors commonly associated with ageing and cognitive decline, such as diabetes, hypertension and smoking, were not linked with being a Super Ager.

Don't neglect a safety net: preparing for cognitive decline

While it's nice to think we might all become Super Agers, the reality is only a minority of us will achieve that level.

The thought of experiencing the natural decline of our cognitive abilities that comes with ageing evokes fear and anxiety. Most people's financial literacy scores decline by about one percentage point each year after age 60, according to research.

Yet less than half of investors said they have a plan in place if their decision-making abilities decline, according to a State Street Global Advisors' survey, which can lead to financial mismanagement or fraud.

It's crucial to set up such a plan in advance to combat any cognitive decline and exert more control.

Consider appointing an independent power of attorney to manage financial decisions if you are unable to do so. An independent trustee can also ensure your interests are placed first, and removes the burden of family and friends making tough decisions.

Your adviser can help you lay the foundations that will protect your finances as your health changes through the years. Contact our office today.

1. Factors associated with being a SuperAger differ for men and women | CEPAR. (2020, October 04). Retrieved from https://www.cepar.edu.au/news-events/news/factors-associated-being-superager-differ-men-and-women

Markets remain resilient in face of pandemic uncertainty

Investment markets continue to hold up well, despite the widespread impact of the coronavirus pandemic.

Investment markets remain steady as global economies slowly emerge from COVID-19-induced recessions. But investors are not entirely out of the woods yet with several risk factors contributing to an uncertain outlook.

Australian equities have held up relatively well since mid-year despite corporate half-year earnings declining by 37%, according to CommSec. The financial and industrial sectors have performed poorly over the year to date, but the IT sector and big miners have made strong gains against a harsh economic backdrop. This seems to be changing in the aftermath of the US election, with the market starting to move away from tech stocks.

The national GDP sank by 7% in the June quarter on the back of the global pandemic with economists predicting only a marginal return to growth next year if further COVID-19 outbreaks are kept in check. The Victorian economy was hard hit after a second lockdown to contain the COVID-19 but is now re opening in time for Christmas.

The performance of residential property improved in September with six of the eight capital cities recording a rise in home values, according to CoreLogic. However, falling values in Melbourne and Sydney, which make up approximately 40% of all dwellings, dragged national prices down by 1.1%.

The Federal Government has reduced the second round of JobSeeker and JobKeeper support while the Reserve Bank cut interest rates to 0.15%.

The global economy has also struggled although global equities have performed well.

The US markets traded in a volatile fashion in the run up to the US election, but eventually rallied with a clear Biden victory. There remain grounds for concern, with the coronavirus outbreak not yet under control, uncertainty about control of the US Senate, and trade tensions with China.

The US Federal Reserve has said it will hold interest rates near zero for at least three years and will allow inflation to overshoot its 2% target to bolster employment.

Markets in the UK, western Europe, Russia, India and Brazil all rallied after the US election, but may experience more volatility as they struggle to contain ongoing COVID-19 outbreaks although many countries have also eased restrictions. China has emerged from the pandemic wreckage relatively unscathed and its performance has helped global economic growth improve in recent months.

However, Australia's relationship with China – its biggest trading partner – continues to deteriorate. China has placed tariffs on Australian barley and banned imports of some Australian beef, although its strong demand for Australian iron ore, which it uses to build infrastructure, continues.

With a quick V-shaped recovery unlikely, savvy investor should remain committed for the long-haul with a diversified portfolio that is aligned to their personal goals.

If you are concerned about current market conditions, please contact of office to speak with your adviser.

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CVFP_2695 11/2020