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# Financial focus

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## AT A GLANCE

### INDIA: WILL BE CHINA MARK II?

The recent Commonwealth Games put Delhi and India right in the media spotlight. Much of the coverage was cautious or negative in the weeks before, but quite different during and after the successful Games. This shift- from caution to congratulations- may be an indication of the way Australia comes to understand India's economic future and its importance to Australia.

With all the recent focus on China, so far we have had only a glimpse of what India's growth might mean to us. Caution is understandable. In fact, India is Australia's fastest-growing major trading partner, with two-way trade growing 55 per cent to nearly \$22 billion in 2008-09. It has the fourth largest economy in the world today, a market of 1.15 billion people, and its upward trajectory is extraordinary. Australia's exports to India have grown at an annual average of 25 per cent over the past five years, climbing from our 13<sup>th</sup> largest to 4<sup>th</sup> largest market in a decade.

So, it is no surprise some economic analysts believe China will overtake the USA as the world's leading economic power by 2020, and India will then overtake China by 2030.

One commentator has drawn on Aesop's fable to describe India as the tortoise to China's hare. And we might remember from childhood just who was the unexpected winner of that mythical race.

### Chinese hare vs. Indian tortoise

The differences between the two countries are stark. China is a disciplined one party state which has implemented strong infrastructure development and maintains centralised controls over the economy. India is an English-speaking democracy which sometimes struggles with its infrastructure and corporate governance, but offers a free market economy and a private sector that is energetic and entrepreneurial.

There is not doubt China, which has had a 20 year start on India for its economic revolution, leads the way. On 2009 gross domestic product (GDP) figures (Table 1), one may well question the belief among some commentators that the Indian economy will grow bigger and faster than China's over the next 20 years.

Table 1 – India vs China

	India	China
Estimated 2009 figures		
<b>GDP</b>	US\$3.57 Trillion	US\$8.74 Trillion
<b>GDP growth year on year</b>	7.4%	9.1%
Estimated at July 2010		
<b>Population</b>	1.156 billion	1.338 billion
<b>Population Aged 0-14</b>	30.5%	19.8%
<b>Median Age</b>	25.9 years	35.2 years

Source: CIA Factbook

However, the population figures tell quite a different story. China's rise was based on its large, cheap labour pool, but because of the one child per family policy, China's workforce is not replacing itself and is ageing, while India's surging birth rate will keep its workforce young and growing. As the figures show, the median or average age for an Indian person is almost 10 years lower and that gap is likely to widen.

Beyond these factors, the biggest impact will come from the twin forces of urbanisation and industrialisation. As these forces gain further momentum, the demand for resources accelerates – people move to cities that require new buildings, roads, rail networks, bridges, communications, vehicles, banks, shopping and office blocks. As the Deputy Governor of the Reserve Bank, Phillip Lowe, pointed out recently while the two countries have similar numbers of people, India has only 40 cities with one million plus people compared with 170 in China. It will take a lot of iron ore, coal and services to support the development of even another 100 large cities in India.

### Implications for Australia

Some economists play down the tortoise and hare analogy since it is not a "race" one country has to win; both countries have room to grow and their own problems to solve. It is certainly possible, given India's higher population growth, fast emerging middle class, projected rate of urbanisation, and entrepreneurial spirit, India's economy could match or outstrip China's 20 years time.

While the current Australian outlook strongly links our future to that of China, there are sound reasons to value and improve the already strong demand from India for our raw materials, agricultural products and other exports. If current discussions between the two countries lead to a Free Trade Agreement then trade will accelerate even more.

Many Australian investors already have a stake in India's growth story through major companies like **ANZ, BHP Billiton, Fosters, Boral, Bluescope Steel, Orica** and other which have invested there. While our major resource companies are leading the way, those companies which provide other products and services should not be overlooked.

And keep an eye on that tortoise.


### TO BE SURE, TO BE SURE ... KEEP UP TO DATE WITH YOUR INSURANCE



Whoever put the "sure" in insurance must have had a sense of humour because as circumstances change you might not be sure what cover you're entitled to!

Added to this, insurance is rarely a set-and-forget product. As you move through life your needs change, so you should regularly check your insurance to make sure it still suits your current circumstances and lifestyle.

For instance, if you have paid off your mortgage and your children have flown the nest, then your required level of cover may be much lower than if you're in your 40's with a young family.



Other trigger points might be getting a new job, buying your first home or an investment property, or getting married or divorced. Or it may simply be that your income has risen over time so your original insurance no longer matches your requirements.

But at any time in life, the unthinkable can happen. The statistics relating to Australians who are forced to take extended periods off work due to an accident or sickness or even die are staggering. These statistics translate to one in five families being affected by serious illness, injury or even death.

### **Sufficient cover?**

The most common mistake is to assume the cover you have for life, total and permanent disability, and income protection is sufficient to maintain you and your family's lifestyle should something go seriously wrong. A further misconception exists with regard to "automatic" insurance held within employee super schemes. While most working Australians have some form of life insurance in their superannuation actuaries, Rice Warner estimate 95% of families still do not have adequate cover.

Using your super to hold and fund life insurance may be an effective strategy as you pay the premiums out of your super contributions, so they come from your pre-tax income. However, it's worth considering through your super to make up for any shortfall. Depending on your circumstances, **tax may be payable on benefits paid.**

Outside super you might also want to consider **trauma insurance**, otherwise known as **critical illness cover**. While **income protection cover** will provide you with an income should you be unable to work, trauma insurance will pay out a lump sum on diagnosis or the occurrence of a specific illness such as heart attack, cancer or stroke. Here you have to be careful of the wording of your policy as definitions will vary across insurers.

If you are running your business in partnership, then you need to consider how you would buy out your partner's share should they become unable to work due to death, sickness or accident. The current economic climate and the difficulties faced by small businesses seeking funds have brought this need into sharper focus.

When it comes to insurance, you need to be sure that you are properly covered. Life changes and so do personal circumstances; it pays to be sure your policy doesn't fall short of expectations.

Please call us if you would like to discuss insurance cover.

## **AUSTRALIAN UNITY HEALTH INSURANCE**

Australian Unity is Australia's leading provider of quality health insurance. Australian Unity core focus is on delivering sustainable and affordable health insurance and health and wellness solutions that represent real value for each and every one of their members.

We are able to refer you to Australian Unity for your much needed health insurance. If you would like more information, please contact your adviser today.

## WHAT'S NEW AT SECNAT?

- Melissa's expecting! We wish to congratulate Melissa (who works with Peter Budge) and her husband Kare Hansen for their recently announced pregnancy. We would like to wish them all the best, may they have an easy, healthy, and happy pregnancy. Congratulations!
- We are providing Age Care Accommodation Advice for \$185 per hour, if you would like more information please contact Keith Lawson or Michael Ibbotson.
- We would like to take this opportunity to remind you that during the upcoming Christmas holidays, our office will be closed from 5 pm on the 23<sup>rd</sup> December 2010 and operations will resume on the 10<sup>th</sup> January 2011. All advisers will be checking email. If you have any urgent issues please phone our office there will be a voice message with contact instructions.
- We wish a Merry Christmas and a Safe New Year to you and your families from all of us at Security National.



### Your Privacy

Your privacy is important to us. If you do not wish to receive information of this kind in the future, please contact your local office located at the back of this document.

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### Contact our office for further information:

#### Security National Financial Services Pty Ltd

ABN 54 007 375 420

Holder of an Australian Financial Services License 244565

Level 2, 608 St Kilda Road

MELBOURNE VIC 3004

Ph: (03) 9510 - 5400 Fax: (03) 9510 - 5405

Email: [secnat@secnat.com.au](mailto:secnat@secnat.com.au)

[www.secnat.com.au](http://www.secnat.com.au)