

Designing group insurance for the future

Exploring issues and opportunities for superannuation funds and trustees

This research paper was originally published in April 2022. The research and data presented in this paper was accurate as of the original date of publication. In December 2024, MLC Life Insurance became Acenda. This paper was refreshed to reflect our new brand identity, without impacting the data. For more information about our transformation, please visit acenda.com.au/acenda

Foreword

by Mark Puli, Chief Group Insurance Officer Acenda

Our superannuation system has proven itself as a way for members to save and build wealth for their retirement. Yet, it also fulfils another important role, helping to protect the financial wellbeing of members during their working years, and beyond.

That's why superannuation is the primary channel for members to access a range of life insurance products in Australia. 70 per cent of all life insurance premiums, both group and retail, flow through the superannuation system today.

While it's a system that delivers for Australians who, due to injury or illness, need to make an insurance claim, it's not immune to external pressures.

In this report, we surveyed 1500 everyday Australian superannuation fund members to find out how they're engaging with their group insurance products within super. We found an alarming lack of awareness and engagement with their insurance policies. In fact, almost two-thirds of policy holders don't understand what they're covered for, or why.

Yet, as this report demonstrates, there's considerable upside for superannuation funds who're better able to engage members around their insurance needs. Members were more satisfied with their superannuation fund as a whole when insurance was tailored to their needs. The simple act of personalising your insurance leads to greater fund loyalty.

And while we don't expect consumer behaviour to change overnight, there are a few areas of focus, or 'quick wins' that can make a world of difference in the short-to-medium-term.

We hope this report provides a useful starting point for discussions about deepening member engagement with group insurance and promotes greater understanding that wealth creation and wealth protection go hand in hand.



Mark Puli
Chief Group Insurance Officer
Acenda

Executive summary

Having appropriate life insurance protection in place offers members peace of mind, while protecting their financial wellbeing all the way into retirement.

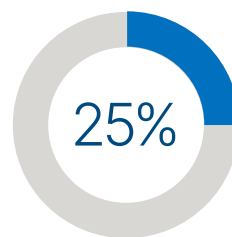
Life insurance plays a vital role in protecting people when they need it most. With cost-of-living pressures set to grow in coming months and years, it's never been more important for members to have appropriate levels of cover in place.

In November and December 2021, we interviewed 1500 everyday Australians, together with industry experts, to better understand how members want to engage with their insurance products held through super.

The findings confirmed that urgent steps are needed to help combat startlingly low levels of engagement and awareness among members. In fact, just 25 per cent of people surveyed claim to understand what they're covered for.

This disconnect has serious consequences both for the industry, and for superannuation funds who have a duty to protect member interests.

Encouragingly, our research also revealed tremendous upside for forward-looking superannuation providers who are willing to better engage with members around their insurance needs.



of people surveyed claim to understand what they're covered for.

Key highlights

01

The knowledge gap is still too large

More needs to be done to close this gap to ensure that members are only covered for what they need.

02

Members want more guidance and support from their superannuation funds

Members are looking for their superannuation providers to give them guidance and help them personalise their cover.

03

Personalising cover increases loyalty

Investing in ways to help members navigate their insurance options and choosing the most appropriate cover will increase loyalty.

04

Awareness of recent reforms like 'stapling' is very low

Education is needed around superannuation reforms like stapling, which may leave certain groups with inadequate cover or no cover at all.



The findings in detail

From our research, we've identified the four key findings that will help shape the discussion around group insurance inside superannuation.

01 The knowledge gap is still too large

Our research identified a lack of engagement with group insurance products and a knowledge gap that must be closed if we're to ensure members are covered for what they need.

We looked firstly at how important life insurance is to people, and then at how engaged people are with the insurance products they hold within super.

It was encouraging to find that overall, 83 per cent of Australians who hold insurance within super consider it to be "important". While this was largely consistent across gender and income-level, it did vary by life stage.

For example, households with children under 18-years of age were more likely to consider life insurance important (90%), than those living alone (77%), and those over 65 years-old (74%).

How engaged are we?

Despite many people being aware of the importance of having life insurance, levels of engagement were much lower. Only four in ten respondents (42%) said they understood their policy and reviewed it from time to time.

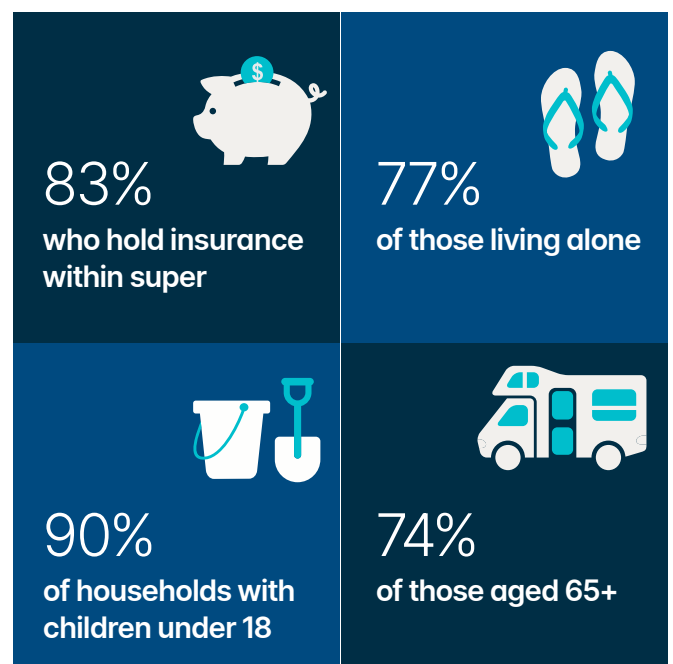
This contrasted with much higher levels of engagement for other financial products, such as superannuation (68%), health insurance (71%), general insurance (78%), long term loans (73%) and everyday banking (87%).

Overall, people aged 18-34 were the least engaged (31%), while those aged over 65 were the most engaged (53%). And, while 46 per cent of men claimed to be engaged, this fell to 37 per cent for women.



Overall, people aged 18-34 were the least engaged

Who finds life insurance important?



We found that just 25 per cent of people know what they're covered for, while only 21 per cent know how much their premiums are. This increased with age and income level, meaning that lower income and younger members were less well informed.

The findings highlight a clear opportunity to close this fundamental knowledge gap by better educating people about their cover. This will help ensure that people are more appropriately covered for their needs.

01 The knowledge gap is still too large



While efforts should be made across the board, particular focus is needed to help improve the level of engagement among women, younger members, and those on lower incomes.

This becomes particularly important as we move further into an environment where the onus to select appropriate levels of insurance sits increasingly with the member.

There was also a clear need and opportunity to make group insurance products more defined and differentiated, helping members to understand and appreciate the role that each play. This would in turn allow them to make much more informed choices in relation to their specific needs.

When it came to specific group insurance products, we found a lack of understanding of what each of the products were, and as such, it was difficult to pinpoint what improvements could be made in the product suite.

“ The findings highlight a clear opportunity to close this fundamental knowledge gap by better educating people about their cover

There were, however, some interesting perspectives expressed by our panel of experts. This included some of the following thoughts and recommendations:

A view that Income Protection should not be part of superannuation as it's too expensive and erodes account balances. An opt-in model would be better.

01 Recommendations that Total and Permanent Disablement cover should move towards a universal and standardised definition to make it easier for members to navigate the complexity.

02 Larger levels of cover should not sit within life insurance in super.

03 Agreement that digital tools can and should play more of a pivotal role in product navigation and comparison of benefits provided.

04 Removing complex jargon and addressing the terms and conditions that exist with products.

05 The findings highlight a clear opportunity to close this fundamental knowledge gap by better educating people about their cover

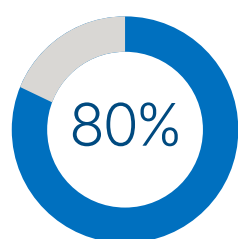
02 Members want more guidance and support from their superannuation funds.

Overall, members expressed a desire for their superannuation providers to give them more guidance on choosing the right group insurance product for them. This creates an opportunity for superannuation funds to further engage with members around personalising their cover.

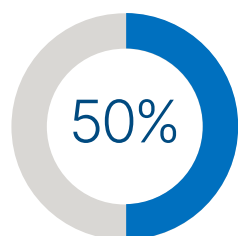
While many members felt reasonably comfortable with their cover, more than a third (43%) don't believe they hold the right cover for their circumstances. And yet, 71 per cent of people surveyed expressed a desire to get their cover right, saying they'd like it to be more personalised to their needs. This was both due to wanting to have the right level of cover for their needs, as well as a perception that they're overpaying for things they don't need (32%). An obvious solution would be modifying the level of cover they hold, but very few have done so (23%).

The real challenge in this category is the amount of people who either don't know it's possible (around 1 in 4) (23%) or are aware but haven't changed cover (around 1 in 2) (49%).

Additionally, only one in two members (50%) had even assessed their level of cover in the past to see whether it was right for their needs. Many people (54%) said it was hard to decide what to be insured for, while only half (52%) were confident they knew how to determine their own insurance needs.



of respondents said they'd be interested in their superannuation fund asking additional questions about their life circumstances.



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Looking for more guidance

This presents a real opportunity for superannuation funds to step in and offer more support to members. In fact, we identified a strong level of permission from members for super funds to help guide their life insurance needs.

What might that look like? 80 per cent of respondents said they'd be interested in their superannuation fund asking additional questions about their life circumstances during the onboarding process to help provide the best insurance product for their needs. 60 per cent say they want their superannuation fund to tell them what insurance needs they should be considering.

Understanding the right moments to connect with members is another key factor. One of the most mentioned prompts to review life insurance is when the fund reaches out directly to the member. House purchases, change of job, birth of children, dependents leaving home, and divorce were other key prompts.

Real life case studies and real consumer stories of experiences with group insurance products are also seen to be very powerful at prompting members to engage with their insurance. This was seen as a key prompt for members but also cited by experts as an impactful way to engage.

“ When there's a serious claim from someone in a large organisation you see a big uptake in people from that business seeking information on their life insurance

02 Members want more guidance and support from their superannuation funds.

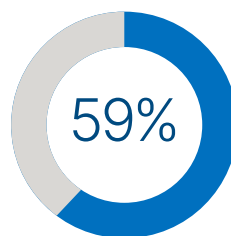


Digital channels are key

Two thirds of members expressed a desire to engage with information and resources about insurance through an app or online. 59 per cent of people would like their super fund to provide an online calculator to help them make their own insurance choices. The appetite for digital tools and apps was more prevalent in younger age groups, but not exclusive to these groups.

Personalisation will also be a key aspect of what superannuation funds and the industry can bring to members.

In conclusion, the research clearly indicates that Australians have a strong desire to be covered appropriately for what they need in life insurance and that there's a good level of permission for superannuation funds to facilitate this process.



of people would like their super fund to provide an online calculator to help them make their own insurance choices.

“ 8 in 10 (83%) reported that having more personalised insurance choices tailored to their lifestyle would be appealing and this highlights the need to have life insurance that is appropriate to a member's circumstances.

03 Personalising cover increases loyalty

Investing in ways to help members navigate their insurance options and choosing the most appropriate cover will increase loyalty.

Helping members navigate their insurance is clearly beneficial for funds. Six in ten (58%) people who have modified their insurance say they're more likely to stay with their fund because they have modified the cover of their insurance inside that fund.

This increased level of loyalty may be because of the effort that the member has gone through to assess their needs and then go on to change their cover.

However, 6 in 10 (60%) also agree that they would be more likely to stay with a superannuation fund if they felt their life insurance was tailored to their needs. This indicates that the peace of mind of having the right cover, with the right fund, is a key driver of loyalty to a superannuation fund.

Those aged 35-49, those with children under 18 years of age, and those that work in a job that requires more insurance cover than average are more likely to be more loyal if insurance is tailored to their needs.

Expert interviews also highlighted the opportunity that life insurance represented for superannuation funds in terms of demonstrating differentiation to the market.

Typically, a superannuation fund would only communicate about the accumulation part of the offer, relying on rates of return and fees/ charges to be a differentiator. Now some superannuation funds are using access to specific life insurance offers to stand out.



There is an opportunity to close advice gaps. Funds should take an interest in this, because it's an opportunity to provide better outcomes for members.



04 Awareness of recent reforms like 'stapling' is very low

Stapling may leave certain groups with inadequate cover or no cover at all.

From 1 November 2021, the Your Future, Your Super measures introduced a number of changes to the market. A key component of this was the introduction of stapled super funds. Stapling aims to reduce account fees and avoiding new super accounts being opened every time an employee starts a new job. Clearly, this change also impacts the way life insurance in superannuation works for members.

At the time of the research, many members were not aware that stapling had come into effect (60%). This was more the case in younger cohorts and for those with lower incomes. We also saw in the research that many people believe that insurance is very similar across superannuation funds.

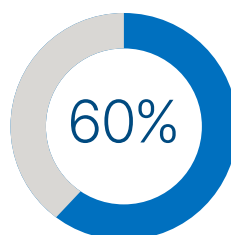
This poses a potential risk for individuals who change jobs, in particular, those not covered by default (under 25s and those with low balances) and people who are stapled to a fund but move into a role that's riskier to their health and safety.

There's also a perception that all group insurance is similar, so if they wanted to switch funds, they would be able to find similar insurance cover in another superannuation fund. This perception holds true for those who feel they require more cover than average and is the same irrespective of what their main fund type is (ie retail, corporate, industry).

It also means that as people change superannuation funds, they may not have the same level of cover as they had previously. Again, when this is combined with lower engagement, it means many people may not be appropriately covered for their needs. This is particularly worrying for those who may be working in higher risk sectors, where there may be occupation exclusions or lack of cover in the life insurance policy.

There's a need for superannuation funds to advise and guide members responsibly through their insurance needs around what changes in employment mean in terms of appropriate level of cover. Employers should also be more active in ensuring their employees have the appropriate level of cover, especially in occupations that may have specific insurance needs.

Recent regulation won't change people's behaviour much. People who are passive will continue to be passive, but they will be impacted because people will go to claim and find they don't have cover. It will be vulnerable people (under 25 or low balances) that are most impacted. These people probably do need cover.



of customers were not aware that stapling had come into effect

“ Many Aussies first job is low risk in hospitality and retail. If they go into a tradie job [for example], their risk profile may change over the years.



Thoughts for
the future

Thoughts for the future

“ There is a need for funds to be communicating with their members more effectively, and digital options need to be better developed for younger cohorts.

01 **There is a clear education and knowledge gap around insurance products in superannuation that needs to be addressed.** This will take members from a product area that encouragingly is seen as important to one that is also well understood. Education can and should come from multiple areas including government, industry bodies, insurance providers but also from superannuation providers.

02 **An improvement in understanding and engagement is particularly needed in terms of what cover is held but also what premiums are being paid.** This in turn will enable members to be fully confident that they have the right cover for their needs and that they are paying the right amount for this.

03 **There is also an opportunity to better articulate the 'why' behind group insurance in super and what this really means for members.** This is likely to be more engaging and allow members to be more actively engaged in and interested in what is a key part of their financial security.

04 **Superannuation funds are very well placed to act as a key player in guiding, supporting, and driving engagement with members on their choices of insurance.** Members are very open to their superannuation fund collecting more information on them so that they can make better recommendations in relation to level of cover and products.

05 **Fund members need to be reached through the right channels.** There is a need for funds to be communicating with their members more effectively, and digital options need to be better developed for younger cohorts.

06 **Moreover, increased engagement from superannuation funds would be a loyalty driver for members.** Investing in helping members navigate their insurance options and helping them choose the most appropriate cover will not only help them, but also help funds build meaningful relationships that will increase their member loyalty to the fund. Communications about group insurance also allows superannuation funds to further differentiate their offer, bring more value to their members and help to build brand.

07 **Stapling and the effects of Your Future, Your Super are yet to materialise.** However, there are already signs that with lower levels of engagement, stapling may disadvantage some members who may unknowingly find themselves with inappropriate levels of cover. This needs to be carefully considered in terms of how superannuation funds guide their members but also how employees assist employees.

08 **Vulnerable groups (low income and younger people) particularly need to be considered carefully.** These are the groups that will be at the highest risk of losing out with the introduction of new legislation, potentially risking not being appropriately covered, or covered at all. They are also the most disengaged group and thus require particular attention.



There is an opportunity to close advice gaps. Funds should take an interest in this, because it's an opportunity to provide better outcomes for members.





For more information call Acenda from anywhere in Australia on **13 65 25** or contact your group insurance representative.

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A survey of 1,503 Australians aged over 18-years was carried out by Kantar in November and December 2021. It comprised a 15-minute quantitative online survey. A series of seven qualitative interviews with superannuation industry professionals working within in life insurance, operational or policy roles was conducted concurrently.

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