



LIFE INSURANCE IN AUSTRALIA (PART ONE)

Consumer Behaviour Transformation

NobleOak

Key findings

For the second year running, NobleOak has commissioned independent research to identify customer trends and behaviour in the life insurance and wider financial services industries, with a focus on the impact digital technology is having. Some key findings outlined in this paper are below.

1. Life insurance advice is predominantly sourced from the internet.

The internet has become the predominant source of life insurance advice by Australians, with a heavy reliance on family and friends, and advisers still playing a role for many.

- 43.6% of respondents use the internet when seeking financial advice for life insurance.
- 35% more respondents purchased life insurance or income protection online or through a mobile device in 2017 compared to 2016.
- When looking for advice on life insurance 28.7% prefer using the Internet, 24.7% use a financial adviser, 21.9% use family members and 14.9% use friends.

2. Customers are less willing to pay for financial advice.

Greater access to online information and calculators has led to a more empowered consumer and is challenging people's willingness to pay for financial advice.

- 55.9% of respondents are unwilling to pay anything for life insurance advice.

3. Technology is making it harder for insurers to differentiate.

With the increasing use of digital technology when purchasing life insurance and as human interactions with insurers and advisers decline, products are becoming more commoditised. This diminishes the opportunity for insurers to differentiate.

- 64% of respondents who would consider buying life insurance and income protection would buy it online or through a mobile device - if they needed it.



The quote

With greater use of the internet and digital devices, information about life insurance and supporting calculators and tools have never been more accessible.

4. Price is the key decision driver – in the absence of differentiation.

Poorly differentiated products has resulted in price being the key decision driver.

- Cost of premiums was cited by 80.5% of respondents as one of the most important factors when purchasing life insurance.
- The key reason around 50% of respondents that have life insurance do not plan to renew their policy with their current insurer, is because it is “too expensive”.

5. Switching behaviour is now more prevalent

With greater product commoditisation and a more empowered consumer, there has been a major increase in people choosing to switch Life insurers.

- 24.6% of respondents in 2017 would consider reviewing their cover and/or insurer, compared to 19.5% in 2016.

6. Certainty at claim time is more important than speed.

The benefits of underwriting a policy upfront is valued by consumers, with a majority preferring to conduct a full health assessment than answer a few questions when applying for cover.

- 39% of people think it's better to do a full health assessment, compared to 30% who say it's better to only answer a few questions.

7. Underinsurance continues to be a problem, with many Australians exposed.

Many Australian families are underinsured and highly vulnerable if the worst should happen.

- 29.1% of respondents would rely on friends and family, 22.1% would sell off assets and 15.2% would even sell their family home to help them cope financially if they contracted a major illness and couldn't go back to work.

Introduction

The digital revolution is empowering customers

For the second year running, NobleOak has commissioned research to identify customer trends and behaviour in the life insurance and wider financial services industries. Surveying over 1,000 Australians – including a mix of those who have life insurance and those who don't – our findings show an industry that continues to be reshaped by digital disruption. This is in addition to the fundamental regulatory and structural changes it is facing. Underinsurance also remains a significant problem with many Australian families vulnerable should an unfortunate event take place.

With greater use of the internet and digital devices, information about life insurance and supporting calculators and tools have never been more accessible. This accessibility is at the forefront of a shift in power from business (including the Life Insurers and financial advisers) to the consumer. This shift is impacting the longer-term viability of many Life insurers and adviser groups.

Losing the personal touch

As consumers embrace the digital world, inevitably there is less human touch and interaction with insurers and financial advisers. Use of online tools, IVRs (interactive voice response systems) and automation of customer communication (e.g. emails and letters that are automatically generated) are all contributing to a “low human touch” customer experience. This is at odds with the aim of many of these businesses to deliver a more personalised customer experience. Everything is “just a click away” for consumers and some people are being replaced with machines.

This increasing distance between insurers and consumers means companies now have less opportunity to convey the value and benefits of their products

in a compelling way. This results in reduced brand differentiation.

The empowerment of customers through digital solutions means consumers can tune out and turn off anything that doesn't interest them. The power is in their hands.

Leaving the old world behind

Australia's first life insurance policy was written in 1833. More than 180 years later, the old adage that “life insurance is sold, not bought” continues to be the accepted wisdom by some. However, the way life insurance and more recently income protection insurance is sold has evolved a great deal, especially since the birth of the internet.

The research in this paper illustrates that life insurance and Income Protection cover are both sourced and “bought” by consumers - who are empowered with access to digital resources, as well as “sold” by financial advisers. The consumer is empowered with more choice and ability to access information and is taking control.

Empowered customers are changing the rules

The Forrester Predictions 2018 Report, 'A Year of Reckoning', highlighted that ‘empowered’ customers are changing the rules, and power has shifted away from organisations.

For life insurance, this shift is translating into price as the pre -dominant decision criteria, rather than a high number of features deemed important by insurers that may add too much cost to premiums.

Figure 1 below shows the relative importance given to factors considered when buying life insurance from the answers to the Pureprofile survey of over 1,000 respondents conducted in December 2017.

Mr Duncan Tait, Fujitsu’s SEVP and Head of Americas and EMEA, said at the Fujitsu 2017 Conference: “Digital disruption is becoming the defining theme of the 21st century. And if it continues at the current rate, then by 2025, 30% of global business revenue will be redistributed to brand new players.”

Digital technology is transforming buyer behaviour.

New ways to address underinsurance

The challenge in influencing consumers

Mirroring last year’s survey results, customers continue to choose the internet as their preferred source of advice for life insurance, as shown below.

We have also seen an increase in the impact of technology on people’s life insurance interactions. This could be attributed to the increased availability of online tools, calculators, use of comparison sites, online quote engines and straight through processing, and online chat, to name a few.

As Figure 3 below shows, we saw a marked increase in the purchase of life insurance or Income Protection online or through a mobile device in the 2017 survey compared to the 2016 results.

On a combined basis, 35% more respondents purchased life insurance or Income Protection insurance online or through a mobile device in 2017 compared to 2016.

This trend is further distancing consumers from advisers and insures and reducing the opportunity for them to influence consumer decisions.

Interestingly, the survey data revealed that the use of digital resources and online purchases are least pronounced among women than men. This group continues to lag behind men when it comes to confidence in using the internet to search for information online as well as buying life insurance online.

Implications for underinsurance

The problem remains

Underinsurance remains a long standing problem in Australia.

Research conducted by Rice Warner and outlined in their report, Underinsurance in Australia 2015, highlights the critical and relentless gap between the level of insurance needed and the level of insurance cover in place. It illustrates that the median level of life cover Australians have meets only 61% of their basic needs, defined as the minimum required to pay all non-mortgage debt and sustain the current living standard until age 65 or until their children reach age 21. In addition, the median life cover is only 37% of the income replacement level, the level required to replace the expected net income of the insured and maintain current living standards until the insured would have reached age 65.

Figure 1. What things are or would be most important to you when purchasing life insurance?

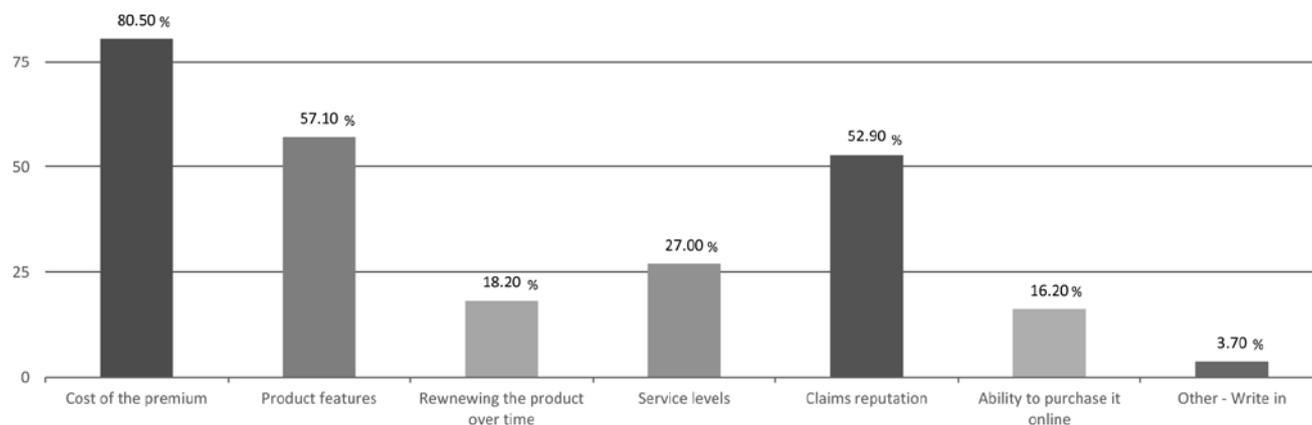
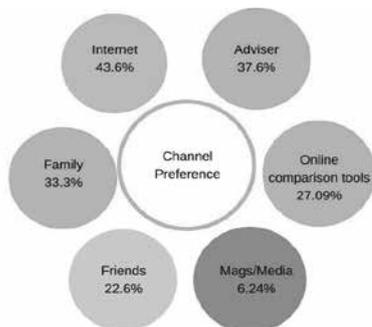


Figure 2. Where do you obtain advice with respect to your life insurance?



Note: Excludes people who do not seek advice.

Figure 3. What insurance product have you purchased online or through a mobile device?

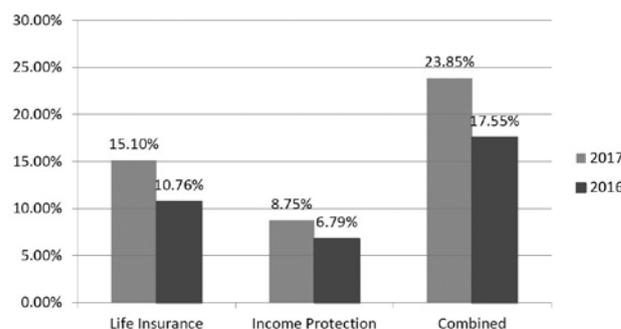


Figure 4. Where do you obtain advice with respect to your financial needs?

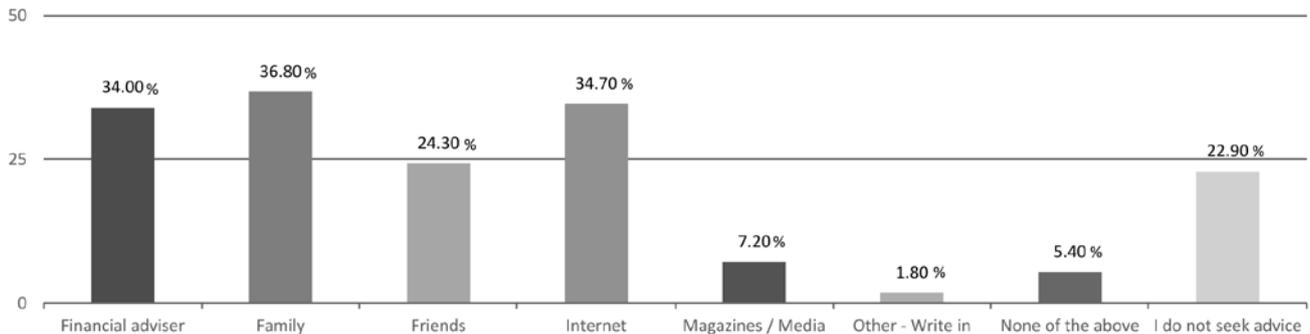
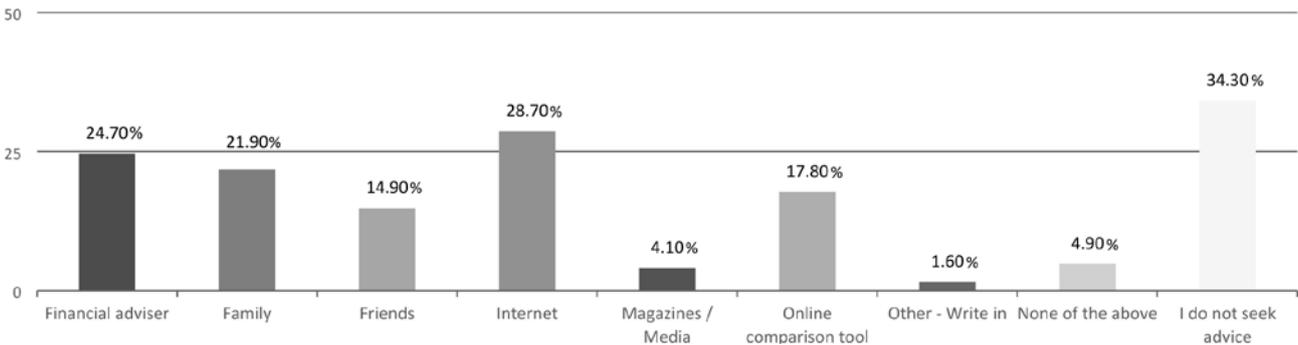


Figure 5. Where do you obtain advice with respect to your life insurance needs?



Further, median levels of Total and Permanent Disability (TPD) cover and Income Protection cover meet only 13% and 16% of their respective needs

More resources required

While the customer is more compelled to take out life insurance and Income Protection without an adviser, some still feel that there is not enough information, or the right type of information, available online. If this gap isn't filled, the underinsurance problem could be exacerbated.

The decision process has changed considerably, becoming increasingly complex. This reflects the more involved nature of the purchase and the proliferation of new channels that consumers can obtain information from. For some groups, this plethora of information can be overwhelming, so price and convenience become the criteria on which to base a purchase decision.

The survey results illustrate that there is a strong appetite for the right information, and that people will purchase life insurance online if they're provided with appropriate resources to do so.

The challenge for insurers is to ensure customers are provided the right information to be able to make an informed decision and get the cover they need at the right time.

How technology is changing behaviour

Multiple sources of advice

When it comes to obtaining advice about financial needs, our survey found a high reliance on family, friends and the internet, followed by financial advisers.

Sourcing advice on financial needs

When questioned about where they prefer to obtain advice about their financial needs (see Figure 4 below), 36.8% of respondents listed the family as their primary source, closely followed by the internet at 34.7%. What's notable about these results is that people will use multiple sources to obtain advice before committing to a course of action. For instance, many people who relied on family and friends also used the internet to support their decision.

Advice from a financial adviser is still an important source of advice, but no longer the main point of reference for Australians, with 34.0% of respondents choosing to seek professional advice for their financial needs (down from 36.4% in 2016).

The use of financial advisers was most prevalent amongst women (39%) and people aged 45-54 (37%), while the internet was most prevalent among people aged 30-34 (46%).

Sourcing advice on life insurance needs

Where people obtain advice on life insurance specifically, they are more inclined to use the internet and family and friends.

When looking for advice on life insurance 28.7% prefer using the Internet, 24.7% use a financial adviser, 21.9% use family members and 14.9% use friends (see Figure 5).

Online comparison tools have also become an important resource for consumers looking to purchase life insurance, with 17.8% of respondents saying they use them to obtain advice.

Again, women are more likely to use a financial adviser (29%) compared to men (20%), while men and women use the internet to a similar degree (29% and 28% respectively). People aged 30-34 years rely more on the internet (37%).

Excluding the 34.3% of people who don't seek advice about life insurance, 43.6% of people seeking to obtain financial advice for life insurance use the internet to do so.

The internet has become a dominant channel for life insurance advice.

Increasing digital interaction

As noted in the 2016 research report, technology is having a significant impact on our interactions with financial service providers. This continues and is particularly true of banks, with 45.2% of people saying their interactions had changed 'a lot' in the last three years.

Whilst still a long way behind the banks in the impact of technology, 41.7% of respondents believe technology has changed their interaction with life insurance 'a lot' or 'a little', and 36.9% believe that to be true for Income Protection.

The biggest group of respondents who said technology had impacted them 'a lot' when it came to life insurance was the 30-34 age group (24%). Refer Figure 6 below. **FS**

Figure 6. How much has technology changed your interactions with (in the last 3 years):

| | A lot | A little | Not at all | Responses |
|--|--------------|--------------|--------------|-----------|
| Banks | 455 45.2% | 318 31.6% | 233 23.2% | 1,006 |
| Investment managers | 120 11.9% | 213 21.2% | 673 66.9% | 1,006 |
| Your super fund | 234 23.3% | 374 37.2% | 398 39.6% | 1,006 |
| Motor/Home/Contents insurance provider | 258 25.6% | 384 38.2% | 364 36.2% | 1,006 |
| Health insurance provider | 247 24.6% | 344 34.2% | 415 41.3% | 1,006 |
| Life insurer (incl. death/life cover, TPD or trauma cover) | 151 15.0% | 269 26.7% | 586 58.3% | 1,006 |
| Income protection insurer | 137 13.6% | 234 23.3% | 635 63.1% | 1,006 |
| Travel insurance provider | 212 21.1% | 289 28.7% | 505 50.2% | 1,006 |

Part two will look at the digital decision making process, impacts of underinsurance and concluding remarks about the challenge for life insurers in the future.