



LIFE INSURANCE IN AUSTRALIA (PART TWO)

Consumer Behaviour Transformation

NobleOak

The digital decision making process

The traditional decision making models of 'needs awareness', 'information search', through to the 'purchase decision' (refer Figure 7 below) is fast becoming outdated in the new era of digital consumption. Online companies such as Alibaba, Amazon, Airbnb, and Kogan have created a major shift in purchase behaviour. The process is no longer linear and can be accelerated.

Traditional sources of advice have been supplemented by online resources, and our research shows that people are more prepared than ever to make online purchases without the benefit of personal financial advice, instead using comparison sites, and multiple information sources for all stages of the purchase funnel.

The new digital decision making process is much more fluid, in-

volving information and advice sources beyond the traditional channels. These include community forums, chat rooms, websites, social media, wikis and blogs.

An insurance company cannot simply rely on its sales team, website and brochures to convert a prospect into a sale. All channels play a role, and increasingly, online and mobile is where the sale may be won or lost.

According to the Forrester Research, 'buyers might be anywhere from two-thirds to 90% of the way through their buying journey before they even reach out to a vendor. The customer goes through the buying journey and engages with the vendor during the consideration and selection processes'.

Mobile is the new frontier for all industries, including life insurance, where there has been a shift to the use of mobile for both search and purchase.

Figure 7. Traditional linear purchasing decision process

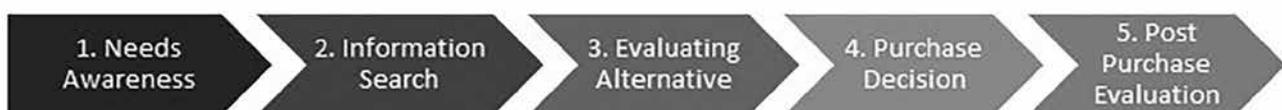


Figure 8. The new buying journey



Source: edynamic

Figure 9. When is the most likely time you would look to purchase life or income protection insurance?

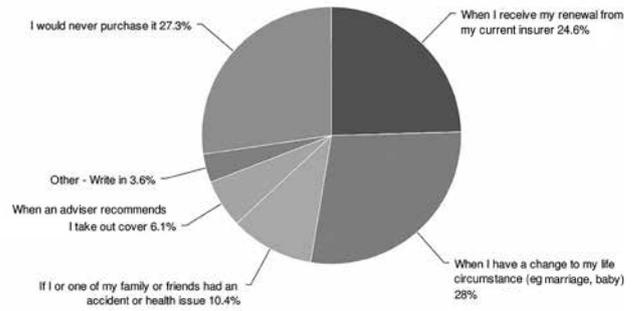
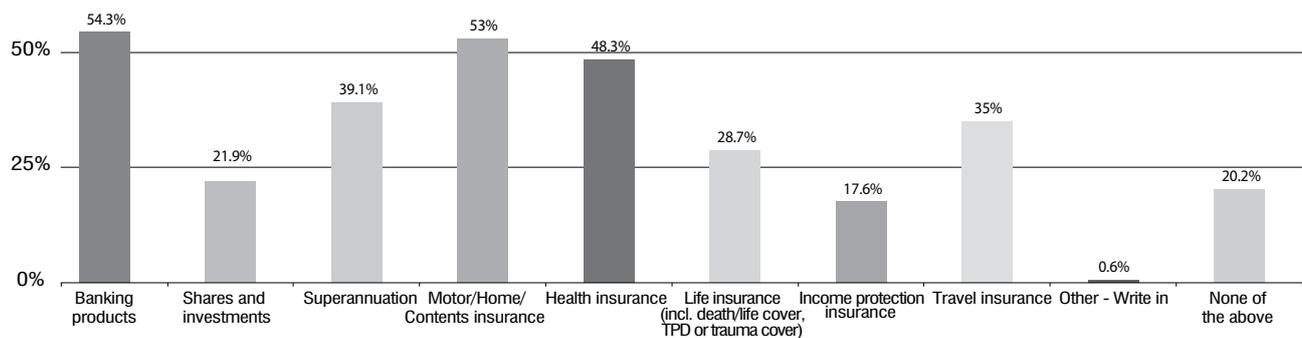


Figure 10. Do you use technology (e.g. a website or app) to research these financial products?



1. Needs Awareness: Stage of life drives need for life insurance

Our research continues to show that major changes in life circumstances are the key drivers to the purchase of life insurance or income protection.

Most likely time to purchase life or income protection insurance

According to our survey, the most likely time for someone to look to purchase life or income protection insurance is when they have had a change in their life circumstances (refer to Chart 5 below). These 'trigger' events included getting a new job, getting a mortgage, getting married, having a baby, if someone close becomes seriously ill or is dying, and the purchase of a business. These trigger events often result in the reassessment of life insurance needs.

We have seen a major increase in people choosing to shop around when their cover is up for renewal from the 2016 results. 24.6% of respondents in 2017 would consider reviewing their cover and/or insurer, compared to 19.5% in 2016 (a 26% increase).

This change in buyer behaviour may have been fuelled by the significant amount of press during the 2017 year highlighting some poorer examples of financial adviser behaviour and examples of claims being declined by some of the larger insurers. This creates both a problem and opportunity for insurers. They need to increase trust and retain customers over the long term.

With the increasing ease of shopping online, it is usually not difficult to switch insurers. The addition of more tools and resources, and the growth of comparison tools available through sites such as Canstar and Finder, are further enablers that help customers confidently switch.

2. Consideration: Searching for information and evaluating alternatives

The survey results show that a significant number of consumers rely on technology to research financial products online prior to making a purchasing decision, particularly banking products, health insurance and motor/home/contents insurance (see Figure 10).

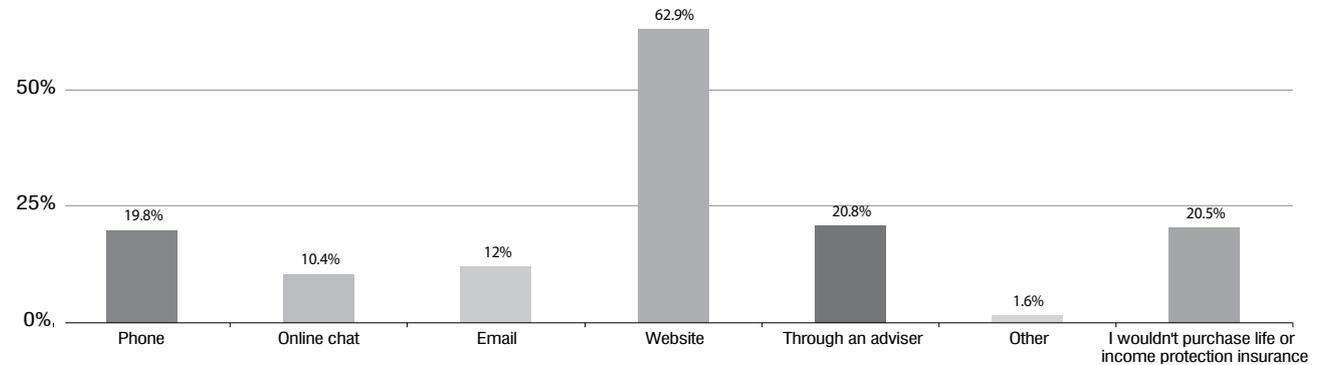
The use of technology to research life insurance has increased from 2016, with 28.7% in 2017 compared to 24.0% in 2016, and 17.6% in 2017 compared to 15.5% in 2016 for income protection insurance.

While this is still lower than banking products (54.3%) and Motor/Home Contents insurance (53%), it is important to consider that only 55% of survey respondents have life or income protection insurance, so many respondents may be looking to buy their first ever life insurance cover.

Evaluating alternatives

When comparing the different life and income protection products that are available, the internet remains the main channel of choice.

Figure 11. What source would you use to compare life insurance or income protection policies before purchasing?



People aged 30-34 and women were the most prolific users of websites for comparing options.

62.9% of respondents use websites as a way of comparing life insurance and income protection policies; compared to an adviser at 20.8% (see Figure 11).

When people who wouldn't purchase life insurance are excluded from these numbers, this figure increases to 79.1% of people who would buy life insurance use the internet to shop around (see Chart 7).

Understanding different types of life insurance

In our 2016 survey, we identified that many respondents are self-directed in making financial decisions at every stage of the purchasing cycle. For these people to make informed purchase decisions, they need to be able to determine the right type and level of cover they need.

Encouragingly, 69.4% of people surveyed this year believe there is enough information available online to help them understand the different types of life insurance or income protection (see Figure 12).

Figure 12. Do you believe there is enough information available online to help you understand the different types of life insurance or income protection cover you need?

Yes	69.4%
No	30.6%

Understanding how much cover is needed

When asked if there was enough information available online to understand how much cover respondents might need, 30.6% said 'No'. This is slightly higher compared to last year's survey result of 27.2% (see Figure 13).

Figure 13. Do you believe there is enough information available online to help you understand how much life insurance or income protection cover you need?

Yes	69.4%
No	30.6%

People without insurance were more likely to think there was not enough information (34%) compared to people with existing cover, 28%. These perceptions may be contributing to underinsurance, as a segment of people aged 30-55 do not believe there is sufficient information for them to ensure they have adequate cover outside of using a financial adviser.

There is clearly an opportunity for insurers to provide better on-line tools to help customers assess their life and income protection insurance needs.

This is highlighted in a response to a new question added in this survey. New findings found that over half (56.9%) of all respondents would use an online assessment calculator compared to 43.1% opting to use a financial adviser (see Figure 14) to help them buy life insurance.

Figure 14. If you had a choice between using a financial adviser to buy life insurance or using an online assessment calculator which would you choose?

Online life insurance assessment calculator	56.9%
Financial adviser	43.1%

3. Purchase: Preferred pathway to getting covered

Use of technology to purchase financial products

When respondents were asked would they purchase life insurance or income protection online or through a mobile device if they needed it, 47.8% said 'Yes' compared to only 26.9% who said 'No' (see Figure 15).

Figure 15. If you needed life insurance or income protection cover, would you purchase this online or through a mobile device?

Yes	47.8%
No	26.9%
I would never buy one of these products	25.3%

These figures are even more compelling when people who would never buy these products are excluded from the results. In this case, 64% of respondents would purchase life insurance or income protection online or through a mobile device if they needed it.

A strong preference for online applications

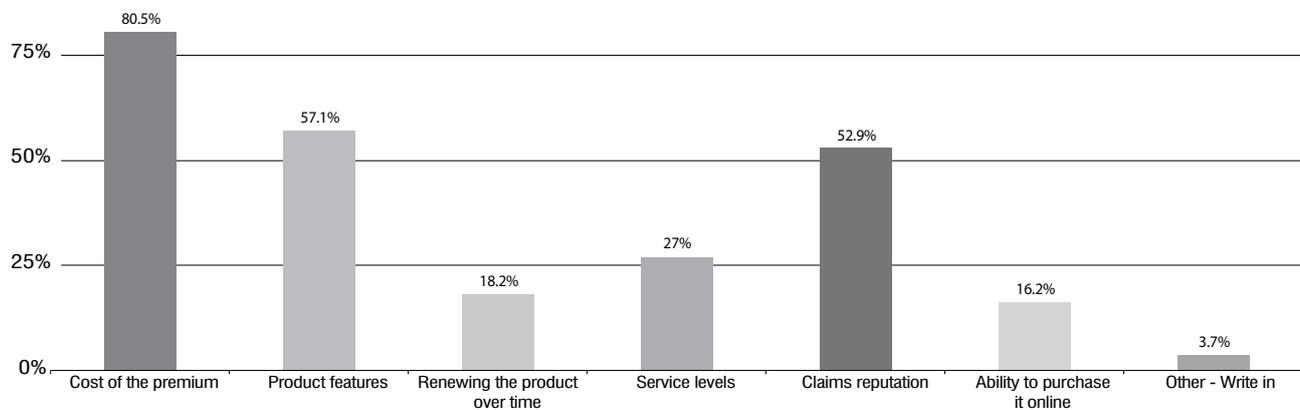
When we asked people about their preferred method of applying for life insurance, an online application was by far the preferred method at 68.4% compared to over the phone at 31.6%.

This strong preference was evident amongst people both with life insurance and without (see Figure 16).

Figure 16. What would be your preferred method of applying for life insurance?

Complete an online application	68.4%
Answer questions over the phone	31.6%

Figure 20. What things are or would be most important to you when purchasing life insurance?



Tailored cover more important than speed

A key benefit of technology is that it enables a fast and easy application process. However, the survey showed that 38.8% believed a full health assessment is better than answering just a few questions (29.6%) at the time you apply (see Figure 17).

Figure 17. When buying life insurance do you think it's better at the time you apply to:

Yes	38.8%
Only answer a few questions	29.6%
Don't know	31.6%

This results in some tension between the aim of applying quickly online (Figure 16) with minimal questions and being well covered with all relevant health questions asked up front (Figure 17).

Confidence in purchasing without advice

Around two thirds (66.8%) of respondents are confident purchasing life insurance online without financial advice and with the right resources. Those who were most confident in buying online were aged 35-44 and had life insurance already, while those who were less confident were aged 45-54 and did not have life insurance.

Figure 18. With the right resources, would you be confident in purchasing a life insurance or income protection product online without a financial adviser?

Yes	66.8%
No	33.2%

Not willing to pay for advice

One of the reasons the market is so attracted to purchasing life insurance online may be their lack of willingness to pay for financial advice. Clearly illustrating value to clients has always been a challenge for many advisers, and with the increasing access to online information and resources that consumers have, this is getting even harder.

Over half of respondents (55.9%) were unwilling to pay anything for financial advice with respect to life insurance, while a further 23.7% of respondents say they'd only be willing to pay up to \$100.

These findings infer a problem with the perceived value of financial advice in relation to life insurance. This presents a significant challenge for financial advisers who often need to fund high upfront advice costs to provide the right advice under strict compliance rules to their clients.

Figure 19. How much would you be willing to pay for financial advice with respect to life insurance, from a financial adviser?

Nothing	55.9%
\$0-\$100	23.7%
\$101-\$500	15.2%
\$501-\$1,000	2.6%
More than \$1,000	2.7%

Price drives purchase

Throughout the purchase cycle, it is evident that price continues to dominate the decision process for most buyers - starting with the initial purchase decision.

As shown in Figure 20 below, the cost of premiums was cited by 80.5% of respondents as one of the most important factors when purchasing life insurance. Features and claims reputation are also high at 57% and 52.9% indicating that people won't purchase an important product like life insurance on price alone.

While most consumers are able to identify when they need life insurance and have access to the online tools and resources they need to determine what type and level of cover they need, the value delivered remains an issue.

Given the nature of life insurance in particular, where the person who takes the policy out will often never witness the claim, the pressure on demonstrating value for money is constant.

Price drives decision not to purchase

Our survey also showed that people don't buy life insurance due to perceptions of high cost. When asked why people don't have life insurance, 44.7% cited cost as the main reason (see Figure 21).

Figure 22. Why don't you plan on renewing your life insurance this year?

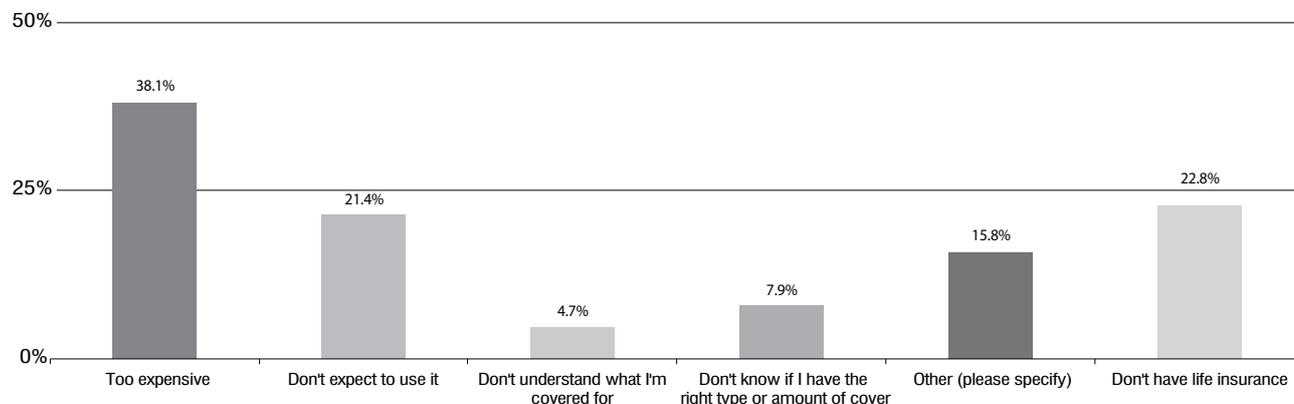


Figure 24. How would you cope financially if you contracted a major illness such as cancer or suffered an injury and couldn't go back to work?

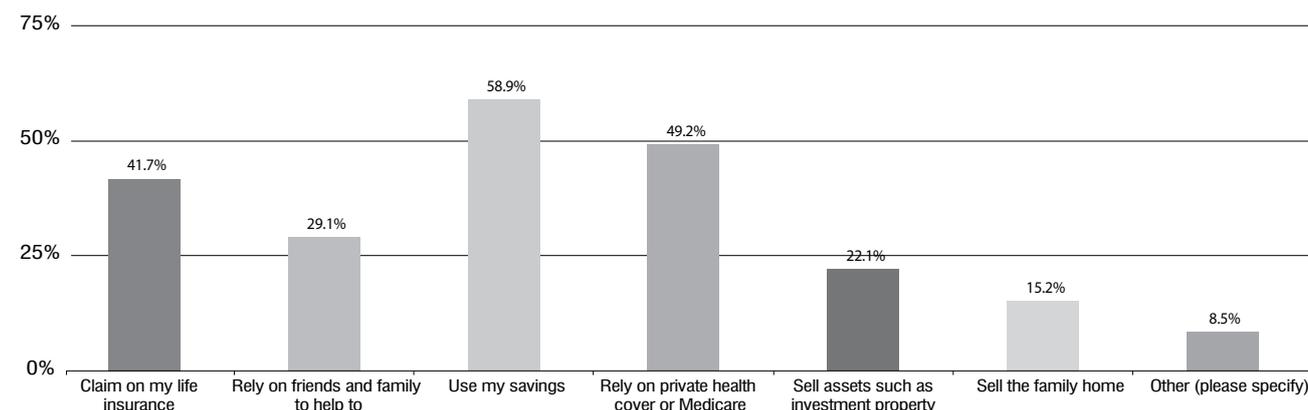


Figure 21. If you do not have life insurance or income protection insurance, what is the main reason?

High cost	44.7%
I don't have it	22.3%
Other – Write in	11.3%
Do not believe in the value of having that type of cover in place	10.8%
A health condition makes you ineligible	4.9%
Process of having that cover in place is too hard or time consuming	3.3%
You don't know what types of things it covers	2.7%

4. Retention: Price is key to loyalty

For respondents that don't plan on renewing their life insurance next year, price appears to be a major driver (refer Figure 22).

The key reason that around 50% (49.4%) of respondents that have life insurance, do not plan to renew their policy with their current insurer, is that it is “too expensive” (calculated as 38.1% / (100% - 22.8%) - Figure 22).

Price drives switching

When asked the main reason why they would switch their life insurance or income protection cover, cost was again the main reason

– cited by 56% of respondents (calculated as 40.6% / (100% - 28%) - Figure 23). Interestingly, a better product was only nominated by 16% (calculated as 11.5% / (100% - 28%) - Figure 23) of respondents, highlighting the issue the industry has with product differentiation.

Figure 23. What would be the main reason you would switch to another life insurance or income protection provider?

Lower premiums	40.6%
I don't have life insurance or income protection	28%
I would not switch	7.6%
Other – Write in	0.8%
Ability to purchase it online	0.4%
Australian owned life insurance company	3.1%
Better product	11.5%
Better service	7.9%

The growing importance of price

Price continues to gain momentum as the determinant of choice for many consumers when it comes to life insurance and income protection cover. In the absence of any significant innovation, products are becoming commoditised as consumers increasingly opt to deal

directly with insurers online rather than seek financial advice.

It appears that legislative and regulatory parameters have limited the ability for life insurers to differentiate their products in a way that is truly meaningful to the customer. So the customer is attracted to value, comprising largely of low price, good reputation and some product features.

The impacts of underinsurance

To help assess the impact of not having sufficient life insurance or income protection, the survey asked respondents to think about what would happen if they suffered a major illness or injury. The results show the real-life impact such an event can have on a family.

Savings is the primary back-up plan

When asked how respondents would cope if they contracted a major illness or suffered an injury 41.7% said they would use their life insurance. This would include covers such as income protection, TPD and Trauma. However, over half said they would use their savings (58.9%) and nearly 50% citing reliance on private health cover or Medicare (see Figure 24).

A clear sign of how unprepared some households are for a serious illness, selling the family home was nominated by 15.2% of respondents.

The vulnerability of many Australian families is highlighted by the fact that 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 (see Figure 24).

Entertainment and holidays most likely to suffer

Overall, the results shown in Figure 25 indicate Australians are pretty pragmatic when it comes to budgeting. Loss of income or financial support for an extended period is most likely to impact a household's budget for entertainment and holidays. Other expenses people are likely to cut back on include savings/investment plans and life insurance – which highlights the potentially damaging impacts on a family's long-term financial security.

Other key observations from this question are:

- Respondents would forgo their savings plan before forgoing Life insurance.
- Respondents would cut down on grocery costs before cutting back mortgage/rent repayments.
- Health and beauty products are a higher priority to entertainment and holidays.
- Respondents rate car and home insurance as one of their highest priorities.

Figure 25. If you lost some or all of your income or financial support for an extended period of time, in which order would you cut back your expenses? (Rank from 1 to 13, where 1 would be the first expense dropped and 13 would be the one you'd do the most to retain.)

	Score	Overall rank
Entertainment costs	10263	1
Holidays	10223	2
Health & beauty expenses	9375	3
Savings/investment plans	7707	4
Life insurance (incl. death/life cover, TPD or trauma cover)	6929	5
Education costs	6923	6
Transport expenses	6879	7
Income protection insurance	6702	8
Mobile phone usage	6347	9
Grocery costs	5951	10
Car/home insurance premium	5425	11
Gas/electricity bills	5013	12
Mortgage/rent payments	3809	13

Conclusion

The differentiation challenge

Price continues to increase in importance when purchasing life insurance and income Protection cover. The most competitive life insurers in the future will be the ones who have a well-priced, differentiated product that is valued by their target market and can meet their online information needs.

An opportunity for innovative insurers

While technology is presenting some challenges for life insurers, it also presents opportunities. Digital technology offers the ease and convenience that people now look for when buying any product.

Customers will be the big winners in the future as insurers and comparison sites offer more information, resources and tools during the purchasing process.

NobleOak has recently launched a comprehensive online life insurance Assessment Calculator to help people assess and calculate their life insurance needs without the help of a financial adviser. This tool incorporates Life insurance, TPD cover, Trauma cover and income protection cover in one, so a user can assess their entire portfolio of requirements. By addressing one of the most common questions we have from customers – 'what type of cover should I have and how much do I need?' – our goal is to help users understand their needs and overcome one of the biggest barriers stopping people from getting covered.

Demonstrating the real value of life insurance

Like any product, price will always be a key factor in whether people decide to take up life insurance, but technology has a role to play in elevating this conversation.

By educating and connecting with customers in more meaningful ways online, life insurers can better demonstrate the value of the products and services they offer clients. This in turn will help reduce the focus on price and make it an easier decision for customers to take up or renew their cover.

“The challenge for life insurers in the future is to stand out and differentiate in a mature industry where innovation is slow and consumer behaviour is shaped by digital innovation.”

- NobleOak CEO, Anthony R Brown

The Pureprofile research again illustrated a shift in the way Australians will purchase life and income protection insurance – as they become more self-directed and digital savvy.

“In the past, most Australians would outsource their insurance requirements to financial advisers and banks. This world continues to change and is driven by more savvy customers as well as better digital resources. We are now moving to a new state where people are taking more control and insourcing these decisions. The Pureprofile results in this report support this change.”

- NobleOak CEO, Anthony R Brown **FS**