

IFSA/Deloitte Future Leaders Award 2008

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Life Discussion Group
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The logo for RGA, consisting of the letters 'RGA' in a bold, white, sans-serif font on a red background.

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Life Insurance Question

- Evaluate the social and economic costs of underinsurance.
- Develop initiatives that would help the industry engage with Australians that are most at risk; such as people with mortgages, young children, less than two incomes or owners of Small to Medium Enterprises (SMEs).

Introduction

“...We cannot solve our problems with the same thinking we used when we created them...” Albert Einstein

Studies have proven underinsurance to be a chronic problem in Australia:

- Australian parents with dependent children are estimated to be underinsured to the tune of \$1,370 billion.
- The ABS estimates the deaths of parents to be over 4,000 per year.
- Approximately two thirds of families do not have enough cover to replace a year of lost income.
- The total insurance gap at the top level is estimated at \$1.3 trillion.

To summarise the challenge at hand:

- Consumers need insurance, whether they know it yet or not.
- The industry has the quantitative and qualitative data available to assist in solving the underinsurance gap.
- Insurers will need to come together to support these initiatives in the hope of increasing their individual profits and growing their market share.
- While in their best interest, closing the wealth protection gap does not appear to be high on the Government’s list of priorities.

Response

- 1. Economic and Social costs of Underinsurance**
- 2. Increasing awareness around the Underinsurance problem**
 - The recent research & practical applications
 - The international experience
 - Suggested future campaigns
- 3. Innovative product design**
 - It's role in closing the protection gap
 - Examples
 - Challenges
- 4. Distribution Channels**
 - Their role in closing the protection gap
 - Development of alternative channels – Bancassurance and Direct
 - Expanding the IFA channel
- 5. Government Response to Underinsurance**
- 6. Ten point action plan – “Closing the Protection Gap”**

Costs of Underinsurance

- **Economic:**
 - Families will struggle to meet the costs of mortgage/rent payments, food and medical bills and education costs
 - The lack of financial security of SME's can effect secure employment and overall economic stability & growth
 - Ultimately, Australians risk living below the poverty line and perpetuating intergenerational poverty.
 - Tax payers will pick up the cost of the underinsured and put a drain on the public purse.
- **Social:**
 - Emotional health & well being, family cohesion, relationship breakdowns
 - Social inequalities such as health, housing, education, literacy, crime rates – development of social enclaves.

Raising Awareness – The research

AIST & Industry Funds Forum research showed:

- Consumers lack of awareness and education around insurance needs
- False sense of security and the “she’ll be right” attitude
- Perceived poor reputation of the insurance market
- Complexity of insurance products
- Perceived high price of premiums
- Inability to obtain simple advice

We need to “re-brand” the concept of insurance and educate consumers, but eliminate the fear factor and instil trust that our products will deliver.

Raising Awareness - Practical applications

- 1. Future marketing campaigns to be delivered by sources considered as 'trustworthy' by consumers and incorporate real life stories to provide a 'balanced' view around the risks of underinsurance. Examples of trusted sources include:**
 - Every day Australian 'heroes' such as: Para-Olympians, Brant Webb, Todd Russell, Lauren Huxley, and Sophie Delizio.
 - Dr Michael Holt <http://www.michaelholt.com.au>
 - Prominent public figures: Kylie Minogue, Sam Newman, Jayson Brundson, Michael Clark & Lara Bingle

- 2. To address the perceived poor reputation and lack of trust, the industry needs to focus on promoting our professionalism & integrity, eg:**
 - Opportunities exists for ALUCA to lead the promotion of developments in the UW and Claims arena, eg: commitment to alternative dispute resolution.
 - To assist with losing the 'salesman' tag traditionally associated with the Agents & Advisors, the AFA could promote details of the Fellow Chartered Practitioner program

Raising Awareness - The international experience

3. LIAM & DIAM:

- Developed by LIFE (non-profit organisation)
- Targeted advertising & print media campaigns, eg: parents magazines
- Internet technologies, such as blogging, You Tube videos
- Direct marketing
- Telephone on hold messages
- Public relation campaigns & seminars targeted at specific market segments, such as trade groups
- Agents to take up booths at parenting fairs, home expos, host community seminars

4. Scholarship Program:

- Based on LIFE Scholarship in US
- Targeted at raising awareness amongst young adults
- Raises profile of the industry

Raising Awareness – Suggested future campaigns

5. Direct Marketing Opportunities (Insurers & Government)

- Insurers: change of name requests & of beneficiary details.
- Government: Births, Deaths, Marriages, Department; small business registration; baby bonus cheques

6. Development of adequate marketing support tools

- Ideally run by a 'trusted source' such as IFSA
- National & centralised source (website) to educate about insurance.
- Online calculators = amounts needed
- Decision trees = types of cover needed

7. Using superannuation as a vehicle for raising awareness

- Trustees and Funds can target those market segments most at risk – they have the data and resources available to them
- There is a opportunity to educate members – 'Trustees & Funds' are trustworthy
- Practically – there is a need to Increase Automatic Acceptance Levels (AAL's)

Innovative Product Design – Role

- There is no point in stimulating the demand side of the underinsurance equation (ie, increasing awareness) if we aren't going to match these efforts on the supply side.
- Innovative product design is part of the answer to stimulating the 'supply side'.
- As insurers, product designers and reinsurance partners our role is critical to the development of innovative and simplified products that will cater to the needs of the underinsured.

Innovative Product Design – Examples

1. Fixed Term Insurance

- ‘Try before you buy’
- Level premiums + less fear of price hikes = increased retention
- Continuation cover options need to be developed

2. Menu Driven Products

- Attracts price sensitive consumers
- Improves product flexibility
- Allows existing product features to better cater to consumer needs
- Example: For consumers who have unlimited sick leave payable by their employers, nursing care benefits may not be a desirable product feature they wish to pay for.

3. Premium Skip Features

- Targets low income earners & Can be applied to existing product ranges
- Promotes continuity of insurance, keeps products affordable & profitable

Innovative Product Design – Examples

4. Product innovation for Superannuation based insurance

- GSC for part time workers, to compliment flexible labour market
- Family or Co-Insurance would extend benefits to spouses/dependents and paid for via the spouses investment account or salary sacrifice.
- Retail products to compliment existing group insurance arrangements,

Examples:

- ✓ Nursing care benefits to compliment extended waiting periods (WP's)
- ✓ IP plans with extended WP's to compliment limited benefit periods
- ✓ Increasing benefit levels to offset tapering of sums insured

5. Product design to compliment public policy:

- **Long Term Care (LTC) Products:** Cater to the aging population's needs and provide benefits such as in-home, respite and nursing care fees.
- **Preferred Lives & Lifestyle Discounts:** can compliment public policy by encouraging healthy lifestyles.
 - ✓ Preferred lives policies – stratify the standard pool, with better rates offered to better risks
 - ✓ Lifestyle discounts reward applicants for healthy lifestyles eg: concurrent health insurance, driving records, etc.

Innovative Product Design – Challenges

- Insurers need to commit considerable resources towards product simplification and innovation.
- Practically speaking, Insurers need to evaluate the barriers towards their delivering simple and innovative products and develop long term strategies to address these.
- Most commonly, insurers will need to address the challenges posed by legacy products and system requirements.

Distribution Channels – Role

- To further stimulate the ‘supply side’ of the equation, alternative distribution channels need to be developed and evolve in line with changing consumer preferences.
- The advice channel preferred by our baby boomers does not appeal to the emerging Generation Y who is more open to non-traditional sales channels and expect simple products to be available to them immediately online.
- For the wealth protection gap to be bridged, each distribution channel will need:
 - ✓ tailored product ranges
 - ✓ corresponding tailored processes

Distribution Channels – Non-traditional

Direct Marketing

- Success in this channel will depend on:
 - ✓ Effective marketing strategies,
 - ✓ Supported by simplistic product design
 - ✓ Complimentary Underwriting practices & straight-through processing
- Examples: Tesco, Gerber, Allianz Direct

Bancassurance

- To develop Bancassurance channels, insurers need to work with establishing partnerships with financial institutions
- CRM systems are essential to enable customer profiling
- Internal promotion of cross risk sales essential, eg: via KPI's
- Success will depend on simplified, tailored products; STP; and streamlined application processes, eg, forms

Distribution Channels – (IFA) Independent Financial Advice

Independent Financial Advice (IFA)

- The IFA channel needs to be reassured:
 - ✓ many insurers are hesitant to pursue non-traditional channels for fear of alienating Advisers and Agents
 - ✓ IFSA could play a role in facilitating discussions between insurers and the IFA
- Reforms are needed to encourage expansion:
 - ✓ Relaxing regulatory requirements will make the IFA more accessible
 - ✓ Example: introduce simplified disclosure for cover up to \$500,000
 - ✓ Tax offsets or tax deductible fees for financial plans

Government Response to Underinsurance

- Insurance has long been a low priority for governments and will remain so if the current climate is anything to go by. We cannot count on the support of the government to bridge the underinsurance gap.
- Short term – the industry will need to commit itself to initiatives that seek to close the protection gap and monitor its progress and gains made.
- Long term – the industry will need to continue to lobby for increased government support
- Various submissions have been put forth to the government that deserve the support of the industry, such as:
 - ✓ Aligning tax treatment of benefits paid inside & outside super arrangements
 - ✓ Abolition of stamp duty
 - ✓ Compulsion of life insurance via a levy or tax deductibility of premiums

10 point plan – “Closing the protection gap”

1. Re-branding the concept of insurance

- Responsibility: to industry bodies such as IFSA (via Lifewise)
- Successful campaigns will be those that break down the barriers identified by the research
- Use every day Australian’s to communicate benefits through real life examples
- Must be non-confrontational and educational
- Targeted at specific market segments

2. Stakeholders to develop complimentary marketing campaigns

- Responsibility: Insurers, Superannuation Trustees; industry Funds
- To improve ‘trust’ in our brands and product campaigns need to promote real life stories – get rid of the gimmicks.
- How? Through advertising, print media, internet technologies (blogging, You Tube)
- Direct Marketing opportunities need to take advantage of existing customer contact
- Industry bodies such as ALUCA & AFA have an opportunity to promote the professionalism of industry

10 point plan – “Closing the protection gap”

3. Establish Australian & Disability Awareness Months

- Recommended that IFSA facilitate the implementation of LIAM & DIAM, perhaps through Lifewise.
- Industry stakeholders will need to commit funding and resources to be successful
- Consider implementing scholarship program to raise awareness amongst young adults.

4. Develop a central reliable source of insurance information

- IFSA to champion the establishment of a centralised source of information
- Ideally – website, online calculators, decision trees
- Industry and regulators to support formulae used in these calculators
- Ideally in the long term this website would become the centralised source of insurance information relied upon by the Government, consumers and industry alike.
- Should promote statistics such as the number of claims paid per annum to instil faith/trust in the products

10 point plan – “Closing the protection gap”

5. Take advantage of superannuation as a vehicle for insuring consumers

- Potential for big gains in short term
- AIST and Industry Funds Forum need to formulate strategies to assist Trustees & Funds with raising awareness
- Trustees and Funds need to analyse their existing data to identify those most at risk
- Once identified, targeted product offerings and enhancements are required, such as raising AAL's
- Trustees and Funds are in a prime position to educate members

6. Product simplification and innovation – Role for the insurer

- Insurers need to commit resources to product simplification and innovation
- Insurers who can develop and implement flexible, simple products will gain competitive advantage
- Insurers need to evaluate those barriers to delivering innovative products and develop long term strategies to address them
- Most insurers will need to address challenges posed by legacy products and system requirements

10 point plan – “Closing the protection gap”

7. Industry encouragement for product simplification and increased attention on the influence of ratings houses

- The industry has a significant role to play in assisting and encouraging innovative product design
- Example: expanding annual insurance awards to reward flexible and simple product design, eg, ANZIFF awards
- Opportunity for IFSA to facilitate discussions around the impact ratings houses have on providing simple & flexible products
- The effect of ‘ratings houses’ requires greater focus by the industry. Suggested that the issue could be examined as part of scholarship/essay writing competitions.

8. Develop non-traditional distribution channels

- Insurers need to commit resources to developing alternative distribution channels
- Bancassurance – insurers need to partner with financial institutions and emphasis needs to be placed on CRM technologies to identify leads.
- These technologies need to be supported by projects that streamline the application process, ie, by combining loan & insurance application forms
- In order to be successful & competitive in the direct/online channel insurers need to develop simple products and align their pricing & underwriting processes.

10 point plan – “Closing the protection gap”

9. Reassurance and expansion of the IFA channel

- Many insurers are shying away from the direct channel for fear of alienating the IFA channel.
- To ensure the growth of non-traditional channels IFSA should work with Insurers to facilitate discussions with the IFA channel
- Greater industry support is needed to IFSA initiatives seeking to relax regulatory requirements and facilitate simple advice and subsidised advice

10. Continued lobbying for government action to address the underinsurance crisis

- IFSA should continue its efforts to bring underinsurance crisis to the forefront of economic policy
- Short term – Initiatives need to prompt subsidised advice, review tax treatment of insurance payments, abolish stamp duty and compel insurance via levies or tax deductible premiums
- Long term – industry needs to remain committed to addressing underinsurance and expand on this 10 point plan.
- If the industry can measure it's commitment and financial gains via further research the government will be compelled to act, especially in the face of increasing awareness amongst constituents.

Conclusion

*“...Any fool can make things bigger,
more complex and more violent.*

*It takes a touch of genius – and a lot of
courage – to move in the opposite
direction...”*

Albert Einstein.

Lifewise ... update for the LDG

John O'Shaughnessy
Deputy CEO
IFSA



History of Lifewise

- 2004 – IFSA industry workshop on the issue of underinsurance
- 2005 – IFSA identified the ‘Protection Gap’ among families
- 2006 – IFSA research on income protection and self employed
- 2007 – IFSA Life Risk Headland Statement
- 2008 – Funding from the industry for a consumer campaign

Campaign objectives and limitations

- build awareness of the issue
- encourage Australians to make a conscious decision
- provide tools that will help people take appropriate steps
- address the perception barriers and demonstrate value

Lifewise will not say that insurance is the only answer

Lifewise will not promote products, brands or channels

Lifewise will not deliver results overnight

Lifewise
Get wise on life insurance

Your way of life is all about enjoying the things that matter to you most – family, friends, fun and freedom. Insurance can help safeguard everyday life. But for most people the amount they have may not be enough to protect what they treasure in the event of accident, sickness or death. Lifewise shows how you can take some simple measures to create a more secure future.

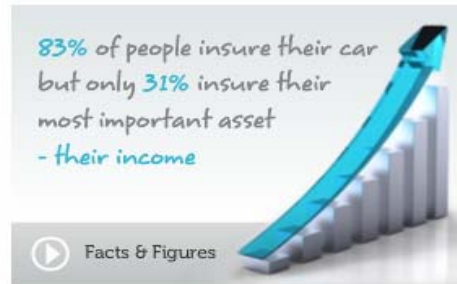
Do I need insurance

Understanding life insurance

Helpful tools

Taking the next step

About the Lifewise initiative



Lifewise 2009/2010

- online campaign – SEO, affiliations etc
- work with supporters – research, media, marketing etc
- work with community partners – steering group
- work with advisers – articles and standard press releases
- research – cost of underinsurance, story driven
- develop collateral – leaflets, factsheets, articles, etc
- build an ambassador base

How you can help

- link into Lifewise
- share your ideas and experiences
- start and maintain a conversation among your networks
- help us think of new ways to tell the story

Thank you!

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Lifewise
Get wise on life insurance