

Insurance in Super: A new opportunity for funds to differentiate?

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Over the last few years, group insurance has become somewhat commoditised within super – funds have typically been reducing benefits to achieve lower premiums and reduce the impact on member balances. So it wasn't all that surprising when ASIC's *Consumer engagement in insurance in super* (REP 673) released recently found many members don't know, understand or value their insurance in super.

In addition, last month's Federal budget saw changes to superannuation that should result in reduced member turnover and the proposed introduction of a somewhat-questionable performance test. While the focus of these proposals has been primarily on fund growth, they also create two flow-on impacts to insurance within super:

- First-to-employment super funds will reverse their recent loss of members (due to PYS and PMIF), and with higher retained members will see a growing diverse membership base across risk occupations (and continue to provide generic, and cost-effective insurance coverage)
- Non-first-to-employment super funds will see an ageing membership base as a result of fewer new members, creating pressure on their current insurance proposition (particularly pricing)

As funds respond to these proposals and focus on member acquisition and the proposition to members, the natural focus will be on price and investment performance. However, some funds may also consider this an opportunity to differentiate based on their insurance proposition.

We think this is likely to create bifurcation within the group insurance industry:

- For many funds, group insurance will continue being seen as diluting member outcomes (instead of recognising the value it can bring for individual members if and when something goes wrong in a cost-effective manner). The resulting ongoing squeeze on group insurance will continue to impact on profitability, and see further reductions in features and value-add for default arrangements.
- A handful of funds will seek to improve their insurance proposition by tailoring benefits and premiums specific for the membership and their members' risk characteristics (eg additional cover for high risk occupations, tailored claim length and premiums). For this to work and attract new members, it requires not only specific marketing and member acquisition tactics, but also more specialist internal resources to understand what will work best for their target membership base, and how to use that to drive member behaviour.

Unfortunately, this isn't likely to make a significant impact on ASIC's next member research into group insurance in super – the increasingly few who it matters for are unlikely to overcome the majority of members where they cannot see the value of their group insurance.

Instead, these changes probably shift the focus towards personal insurance within super in future.